

In the opinion of Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, Bond Counsel, under existing federal statutes, decisions, regulations and rulings, interest on the Series 2016 Bonds, as defined herein, is excludable from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and is not treated as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. Such exclusion is conditioned upon continuing compliance by the Issuer and the Borrower with the Tax Covenants, all as defined herein. See “TAX MATTERS” herein and Appendix D hereto. Interest on the Series 2016 Bonds is not exempt from State of Wisconsin income tax.



\$5,310,000
PUBLIC FINANCE AUTHORITY
EDUCATIONAL FACILITIES REVENUE BONDS
(CAROLINA FRIENDS SCHOOL),
SERIES 2016

Dated: Date of Delivery**Due: August 1, as shown on inside cover**

The Public Finance Authority (the “Issuer”), a unit of government and a body corporate and politic of the State of Wisconsin (the “State”), will issue its Educational Facilities Revenue Bonds (Carolina Friends School), Series 2016 in the aggregate principal amount of \$5,310,000 (the “Series 2016 Bonds”) pursuant to an Indenture of Trust, dated as of October 1, 2016 (the “Indenture”), between the Issuer and Wilmington Trust, National Association, as trustee (the “Trustee”). The proceeds of the Series 2016 Bonds will be loaned to The Carolina Friends School, a North Carolina nonprofit corporation that operates a co-educational Quaker school under the name Carolina Friends School (the “Borrower”), pursuant to a Loan Agreement, dated as of October 1, 2016 (the “Loan Agreement”), between the Issuer and the Borrower. See APPENDIX A – “THE BORROWER.” Proceeds of the Series 2016 Bonds will be used to (i) finance the acquisition, construction and equipping of a new performing arts center and other capital improvements on the Borrower’s main campus, (ii) fund a debt service reserve fund, and (iii) pay certain issuance expenses of the Series 2016 Bonds.

The Series 2016 Bonds will be payable from the moneys held for the payment thereof by the Trustee under the Indenture, including amounts held in a debt service reserve fund, and Loan Payments (as defined herein) to be made by the Borrower under the Loan Agreement. The Series 2016 Bonds will be secured by an assignment and pledge of amounts payable pursuant to the Loan Agreement. The Borrower will be required to make Loan Payments in amounts sufficient to pay debt service on the Series 2016 Bonds, plus certain other payments. See “THE SERIES 2016 BONDS” and “SECURITY FOR THE SERIES 2016 BONDS” herein.

Interest on the Series 2016 Bonds will accrue from the date of delivery thereof and will be payable semiannually on each February 1 and August 1, commencing February 1, 2017. The Series 2016 Bonds will be issued as fully registered bonds in the denomination of \$5,000 or any integral multiples of \$5,000 in excess thereof, and will initially be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York (“DTC”). Purchases of the Series 2016 Bonds will be made in book-entry form only. Purchasers of beneficial interests will not receive certificates representing their interest in the Series 2016 Bonds. Payments of principal of, premium, if any, and interest on the Series 2016 Bonds will be made directly to DTC or its nominee, Cede & Co., so long as DTC or Cede & Co. is the registered owner of the Series 2016 Bonds. Disbursement of such payment to the DTC Participants (as defined herein) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as defined herein) is the responsibility of the DTC Participants, as more fully described herein.

The Series 2016 Bonds are subject to mandatory and optional redemption as described herein. See “THE SERIES 2016 BONDS - Redemption” herein.

THE SERIES 2016 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE AND EXCEPT FROM SUCH SOURCE, NONE OF THE ISSUER, ANY SPONSOR (AS DEFINED IN THE INDENTURE), ANY MEMBER (AS DEFINED IN THE INDENTURE), ANY ISSUER INDEMNIFIED PARTY (AS DEFINED IN THE INDENTURE), THE STATE OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2016 BONDS SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST THEREON OR ANY COSTS INCIDENTAL THERETO. THE SERIES 2016 BONDS ARE NOT A DEBT OF THE STATE AND DO NOT, DIRECTLY, INDIRECTLY OR CONTINGENTLY, OBLIGATE, IN ANY MANNER, ANY MEMBER, THE STATE OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2016 BONDS TO LEVY ANY TAX OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE SERIES 2016 BONDS OR ANY COSTS INCIDENTAL THERETO. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ANY MEMBER, THE STATE OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2016 BONDS NOR THE FAITH AND CREDIT OF THE ISSUER, ANY SPONSOR OR ANY ISSUER INDEMNIFIED PARTY SHALL BE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2016 BONDS OR ANY COSTS INCIDENTAL THERETO. THE ISSUER HAS NO TAXING POWER.

The Series 2016 Bonds are offered, subject to prior sale, when, as and if accepted by George K. Baum & Company (the “Underwriter”) and subject to an opinion as to validity and tax exemption by Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, Bond Counsel, the approval of certain matters by Moore & Van Allen PLLC, Charlotte, North Carolina, as counsel to the Underwriter, the approval of certain matters by Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, as counsel to the Borrower, and the approval of certain matters by von Briesen & Roper, s.c., Milwaukee, Wisconsin, as counsel to the Issuer. It is expected that delivery of the Series 2016 Bonds will be made on or about October 20, 2016, through the facilities of DTC in New York, New York, against payment therefor.

GEORGE K. BAUM & COMPANY

\$5,310,000
Public Finance Authority
Educational Facilities Revenue Bonds
(Carolina Friends School)
Series 2016

Maturity Schedule

\$1,100,000 Serial Series 2016 Bonds

<u>Due</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u> <u>74443D</u>	<u>Due</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u> <u>74443D</u>
2017	\$95,000	3.00%	1.30%	AV3	2022	\$110,000	4.00%	2.27%	BA8
2018	95,000	3.00	1.62	AW1	2023	115,000	4.00	2.41	BB6
2019	100,000	3.00	1.77	AX9	2024	120,000	4.00	2.65	BC4
2020	105,000	3.00	1.93	AY7	2025	125,000	4.00	2.85	BE0
2021	105,000	4.00	2.11	AZ4	2026	130,000	4.00	3.00	BG5

\$570,000 3.25% Term Bonds Maturing August 1, 2030, Yield: 3.60%, CUSIP NO: 74443DBL4**
\$1,020,000 3.75% Term Bonds Maturing August 1, 2036, Yield: 3.95%, CUSIP NO: 74443DBD2**
\$2,620,000 4.00% Term Bonds Maturing August 1, 2047, Yield: 4.10%, CUSIP NO: 74443DBF7**

** The above-referenced CUSIP numbers have been assigned by an independent company not affiliated with the Issuer, the Borrower, the Underwriter or Trustee, and are included solely for the convenience of the holders of the Series 2016 Bonds. None of the Issuer, the Borrower, the Underwriter or the Trustee is responsible for the selection or uses of such CUSIP numbers, and no representation is made as to their correctness on the Series 2016 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2016 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities.

NO REPRESENTATION OR ASSURANCE CAN BE GIVEN THAT THE BORROWER WILL REALIZE REVENUES IN AMOUNTS SUFFICIENT TO MAKE THE REQUIRED PAYMENTS UNDER THE LOAN AGREEMENT. THE REALIZATION OF FUTURE REVENUES IS DEPENDENT UPON, AMONG OTHER THINGS, THE MATTERS DESCRIBED IN THE FOREGOING PARAGRAPH AND FUTURE CHANGES IN ECONOMIC AND OTHER CONDITIONS THAT ARE UNPREDICTABLE AND CANNOT BE DETERMINED AT THIS TIME. SEE “BONDHOLDERS’ RISKS” HEREIN.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2016 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesperson or other person has been authorized by the Issuer, the Borrower or the Underwriter to give any information or to make any representation with respect to the Series 2016 Bonds other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2016 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Issuer, the Borrower and other sources that are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the Issuer or the Borrower or other matters described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

The explanations of provisions of laws and descriptions of the documents in this Official Statement are summaries thereof and reference is made to the actual laws and documents for a complete understanding of the contents of such documents.

Neither the Issuer nor the Trustee assumes any responsibility for this Official Statement and has not reviewed or undertaken to verify any information contained herein.

The order and placement of materials in this Official Statement, including the Appendices, are not deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices, must be considered in its entirety. The offering of the Series 2016 Bonds is made only by means of this entire Official Statement.

In making an investment decision, investors must rely on their own examinations of the Borrower and the terms of the offering, including the merits and risks involved. The Series 2016 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 completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

The Borrower has covenanted to provide continuing disclosure as described in this Official Statement in APPENDIX E — “FORM OF CONTINUING DISCLOSURE UNDERTAKING,” pursuant to Rule

15c2-12 of the Securities and Exchange Commission. The Issuer has not, and will not, undertake any responsibilities to provide continuing disclosure with respect to the Series 2016 Bonds and will have no liability to Bondholders with respect to any such disclosures.

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.

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SUMMARY STATEMENT

The following introductory material is only a brief description of, and is qualified by, the more complete information contained throughout this Official Statement. A full review should be made of the entire Official Statement and the documents summarized or described herein. The offering of the Series 2016 Bonds to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or otherwise use it without the entire Official Statement. For the definitions of certain words and terms used in this Summary Statement, see APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS.”

Purpose of the Issue The Public Finance Authority (the “Issuer”) is issuing its \$5,310,000 Educational Facilities Revenue Bonds (Carolina Friends School), Series 2016 (the “Series 2016 Bonds”) pursuant to an Indenture of Trust, dated as of October 1, 2016 (the “Indenture”), between the Issuer and Wilmington Trust, National Association, as Trustee.

Proceeds from the sale of the Series 2016 Bonds will be loaned to The Carolina Friends School (the “Borrower”) pursuant to the terms of a Loan Agreement, dated as of October 1, 2016 (the “Loan Agreement”), between the Issuer and the Borrower, and will be used to (1) finance the acquisition, construction, and equipping of a new performing arts center and other capital improvements on the Borrower’s main campus (the “Project”), (2) fund a debt service reserve fund, and (3) pay certain issuance expenses of the Series 2016 Bonds. See “SOURCES AND USES OF FUNDS” and “THE BORROWER.”

The Issuer The Issuer is a joint powers commission and a unit of government and a body corporate and politic separate and distinct from, and independent of, the State of Wisconsin and the Members (as hereinafter defined). The Issuer was created in 2010 pursuant to Section 66.0304 of the State of Wisconsin State Statutes by local governments for the public purpose of providing local governments a means to efficiently and reliably finance projects that benefit local governments, nonprofit organizations and other eligible private borrowers in the State of Wisconsin and throughout the country. See “THE ISSUER.”

The Borrower The Borrower is a nonprofit corporation existing under the laws of the State of North Carolina. See “THE BORROWER” and “APPENDIX A—THE BORROWER.”

Special Limited Obligations The Series 2016 Bonds are special limited obligations of the Issuer payable solely from the Trust Estate and are not a debt or liability of any Sponsor, the State or any political subdivision or agency thereof or any political

subdivision approving the issuance of the Series 2016 Bonds. The Series 2016 Bonds do not, directly, indirectly or contingently, obligate, in any manner, the State or any political subdivision or agency thereof or any political subdivision approving the issuance of the Series 2016 Bonds to levy any tax or to make any appropriation for payment of the Series 2016 Bonds. Neither the faith and credit nor the taxing power of the State or any political subdivision or agency thereof or any political subdivision approving the issuance of the Series 2016 Bonds nor the faith and credit of any Sponsor or the Issuer shall be pledged to the payment of the principal of, premium, if any, or interest on, the Series 2016 Bonds. The Issuer has no taxing power. See “SECURITY FOR THE SERIES 2016 BONDS.”

Book-Entry-Only Registration..... The Series 2016 Bonds will be issued in fully registered form and will be registered initially in the name of “Cede & Co.” as nominee for The Depository Trust Company, New York, New York (“DTC”), a securities depository. Beneficial ownership interests may be acquired through participants in the DTC system (the “Participants”). Such beneficial ownership interests will be recorded in the records of the Participants. Persons for which Participants acquire interests in the Series 2016 Bonds (the “Beneficial Owners”) will not receive certificates evidencing their interests in the Series 2016 Bonds so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2016 Bonds. So long as DTC or its nominee is the registered owner of the Series 2016 Bonds, payments of principal, premium, if any, and interest on the Series 2016 Bonds, as well as notices and other communications made by or on behalf of the Issuer pursuant to the Indenture, will be made to DTC or its nominee only. Disbursement of such payments, notices and other communications by DTC to Participants, and by Participants to the Beneficial Owners, is the responsibility of DTC and the Participants pursuant to rules and procedures established by such entities. See “APPENDIX F —BOOK-ENTRY-ONLY SYSTEM” for a discussion of the operating procedures of the DTC system with respect to payments, registration, transfers, notices, and other matters.

Payment Provisions..... The Series 2016 Bonds mature and bear interest (computed on the basis of a 360-day year of twelve 30-day months) at the rates set forth on the inside cover page hereof. Interest on the Series 2016 Bonds is payable semiannually on February 1 and August 1 in each year, commencing February 1, 2017.

Prior Redemption.....The Series 2016 Bonds are subject to mandatory and optional redemption. The terms and provisions regarding such prior redemption are set forth in “THE SERIES 2016 BONDS - Redemption.”

SecurityThe Series 2016 Bonds are special, limited obligations of the Issuer as described under “Limited Obligations” herein. Under the Loan Agreement, the Borrower is obligated unconditionally to pay amounts sufficient to provide for the payment of the principal of, premium, if any, and interest on the Series 2016 Bonds. The Series 2016 Bonds are secured by a pledge of (1) certain rights and interests of the Issuer under and pursuant to the Loan Agreement, (2) the rights and interests of the Issuer under the Series 2016 Promissory Note (as defined herein), and (3) all Funds created in the Indenture (other than the Cost of Issuance Fund) subject to certain provisions of the Indenture. See “SECURITY FOR THE SERIES 2016 BONDS.”

The Series 2016 Bonds are secured by and payable solely from funds payable by the Borrower under the terms and conditions of the Loan Agreement. See “SECURITY FOR THE SERIES 2016 BONDS.”

Debt Service Reserve Fund. A debt service reserve fund will be established pursuant to the Indenture for the Series 2016 Bonds (the “Debt Service Reserve Fund”) in an amount equal to \$302,800.00 (the “Debt Service Reserve Fund Requirement”). The Debt Service Reserve Fund is pledged for the repayment of the Series 2016 Bonds.

Debt Service Coverage Ratio CovenantUnder the Loan Agreement, the Borrower agrees to deliver annually, upon completion of the Borrower’s annual audit, to the Issuer, the Trustee and the Underwriter a certificate stating the Debt Service Coverage Ratio for the Fiscal Year then ended and evidencing the calculation therefor, commencing with the Fiscal Year ending June 30, 2017. The Debt Service Coverage Ratio shall be at or above 1.25 to 1 for the Fiscal Years ending June 30, 2017, and any Fiscal Year thereafter. See “SECURITY FOR THE SERIES 2016 BONDS- Debt Service Coverage Ratio.”

Historical Pro Forma Debt Service CoverageFor a table showing the Borrower’s historical pro forma Debt Service Coverage Ratio for the Fiscal Years ended June 30, 2012 through June 30, 2016, see “SECURITY FOR THE SERIES 2016 BONDS- Debt Service Coverage Ratio.”

Risk Factors	Prospective purchasers should read this entire Official Statement and the Appendices attached hereto in their entirety, particularly the section “BONDHOLDERS’ RISKS” herein, for a discussion of certain risk factors, which should be considered in connection with an investment in the Series 2016 Bonds.
Continuing Disclosure Agreement	The Borrower has agreed for the benefit of the Registered Owners and Beneficial Owners of the Series 2016 Bonds to provide certain financial information and other operating data and notices of material events. See “CONTINUING DISCLOSURE” and “APPENDIX E – FORM OF CONTINUING DISCLOSURE UNDERTAKING.”
Tax Status	In the opinion of Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, Bond Counsel, under existing federal statutes, decisions, regulations and rulings, interest on the Series 2016 Bonds, as defined herein, is excludable from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and is not treated as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. Such exclusion is conditioned upon continuing compliance by the Issuer and the Borrower with the Tax Covenants, all as defined herein. Interest on the Series 2016 Bonds is not exempt from State of Wisconsin income tax. See “TAX MATTERS” for additional information.
Authority for Issuance	The Series 2016 Bonds are being issued in full conformity with the constitution and laws of the State of Wisconsin, and pursuant to authorizing resolutions (collectively, the “Resolution”) expected to be adopted by the Issuer’s Board of Directors (the “Board”) at a meeting held on October 5, 2016 pursuant to the terms of the Indenture.
Delivery Information	The Series 2016 Bonds are offered when, as, and if issued by the Issuer and accepted by George K. Baum & Company, as underwriter for the Series 2016 Bonds (the “Underwriter”), subject to the prior sale and the approving legal opinion of Bond Counsel and certain other conditions. It is expected that the Series 2016 Bonds will be available for delivery through the facilities of DTC on or about October 20, 2016.

Financial Statements	The Borrower’s financial statements for the Fiscal Years ended June 30, 2014 and June 30, 2015 were audited by Davenport, Marvin, Joyce & Co., LLP. These audited financial statements and the management-prepared unaudited financial statements of the Borrower for the fiscal year ended June 30, 2016 are attached hereto as “APPENDIX C.”
Agents and Advisors	George K. Baum & Company will serve as the Underwriter. Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, has acted as Bond Counsel. Certain legal matters will be passed on for the Borrower by its counsel, Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, for the Issuer by its counsel von Briesen & Roper, s.c., Milwaukee, Wisconsin, and for the Underwriter by its counsel Moore & Van Allen PLLC, Charlotte, North Carolina. Wilmington Trust, National Association will serve as the Trustee for the Series 2016 Bonds. Certain fees that are payable by the Issuer with respect to the Series 2016 Bonds to various counsel, the Underwriter and the Trustee are contingent upon the issuance and delivery of the Series 2016 Bonds.
Additional Information	The summaries of or references to constitutional provisions, statutes, resolutions, agreements, contracts, financial statements, reports, publications and other documents or compilations of data or information set forth in this Official Statement do not purport to be complete statements of the provisions of the items summarized or referred to and are qualified in their entirety by the actual provisions of such items, copies of which are either publicly available or available upon request and the payment of a reasonable copying, mailing and handling charge from the Borrower’s administrative offices, 4809 Friends School Road, Durham, North Carolina 27705, Attention: Katie Collini (919) 383-6009 or the Underwriter, 112 South Tryon Street, Suite 1600, Charlotte, North Carolina 28284, Attention: David Adams (704) 376-0200..

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OFFICIAL STATEMENT

\$5,310,000
PUBLIC FINANCE AUTHORITY
EDUCATIONAL FACILITIES REVENUE BONDS
(CAROLINA FRIENDS SCHOOL)
SERIES 2016

INTRODUCTORY STATEMENT

The following is a brief introduction as to certain matters discussed elsewhere in this Official Statement and is qualified in its entirety as to such matters by such discussion and the text of the actual documents described or referenced. Any capitalized term not required to be capitalized is used with the meaning assigned in Appendix B or in the Indenture of Trust dated as of October 1, 2016 (the “Indenture”), between Public Finance Authority (the “Issuer”) and Wilmington Trust, National Association, Baltimore, Maryland (the “Trustee”), the Loan Agreement dated as of October 1, 2016 (the “Loan Agreement”), between the Issuer and The Carolina Friends School, a North Carolina nonprofit corporation (the “Borrower”), or other document with respect to which the term is used. Definitions contained in the text hereof are for ease of reference only and are qualified in their entirety by the definitions in Appendix B or the documents with respect to which such terms relate. The Appendices hereto are an integral part of this Official Statement and each potential investor should review the Appendices in their entirety.

General

This Official Statement provides information regarding the Educational Facilities Revenue Bonds (Carolina Friends School), Series 2016 in the aggregate principal amount of \$5,310,000 (the “Series 2016 Bonds”) to be issued by the Issuer pursuant to the Indenture. Pursuant to the Loan Agreement, proceeds of the Series 2016 Bonds will fund a loan (the “Loan”) to the Borrower. See APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – The Loan Agreement.”

The Borrower has requested that the Issuer issue the Series 2016 Bonds and loan the proceeds thereof to the Borrower. The Borrower intends to use the proceeds of the Series 2016 Bonds to (i) finance the acquisition, construction, and equipping of a new performing arts center and other capital improvements on the Borrower’s main campus, (ii) fund a debt service reserve fund, and (iii) pay certain issuance expenses of the Series 2016 Bonds. See “SOURCES AND USES OF FUNDS” and “THE BORROWER” and APPENDIX A – “THE BORROWER.”

Loan Agreement

The Loan Payments will be evidenced by the Series 2016 Promissory Note (the “Series 2016 Promissory Note”), executed by the Borrower in favor of the Issuer, which will be assigned without recourse against the Issuer but with recourse against the Borrower to the Trustee. Proceeds of the Series 2016 Bonds in the Project Fund will be disbursed pursuant to the Loan Agreement and the Indenture. Pursuant to the Loan Agreement, the Borrower will make certain representations and covenants related to maintaining the exclusion from gross income for federal income tax purposes of interest on the Series 2016 Bonds.

Pursuant to the Indenture, the Issuer has pledged to the Trustee, for the benefit of the holders of the Series 2016 Bonds, all of its interest in the Loan Agreement and the Series 2016 Promissory Note (other than the Issuer's Unassigned Rights (as defined in the Indenture)), to secure payment of the principal of, premium, if any, and interest on the Series 2016 Bonds.

Debt Service Reserve Fund

On the date of issuance of the Series 2016 Bonds, an amount equal to \$302,800.00 of Series 2016 Bond proceeds, which amount shall be equal to the Debt Service Reserve Requirement for the Series 2016 Bonds, will be deposited in the account related to the Series 2016 Bonds in the Debt Service Reserve Fund created under the Indenture. Earnings on amounts in the Debt Service Reserve Fund will be deposited therein, so long as the balance therein is less than the Debt Service Reserve Fund Requirement. Amounts in the Debt Service Reserve Fund will secure only the Series 2016 Bonds and may be used by the Trustee to pay principal of, premium, if any, and interest on the Series 2016 Bonds in the event monies in the Bond Fund are insufficient for such purpose. There is no guarantee that the Debt Service Reserve Fund will be available to pay debt service on the Series 2016 Bonds. See "SECURITY FOR THE SERIES 2016 BONDS – Debt Service Reserve Fund" and APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – The Indenture – Debt Service Reserve Fund."

Special Covenants of the Borrower

The Loan Agreement places certain restrictions on the incurrence of additional indebtedness by the Borrower. The Borrower has agreed in the Loan Agreement to provide certain periodic financial reports. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – The Loan Agreement – Limitations on Additional Indebtedness" and "Audits; Financial Statements; Reports."

Bondholders' Risks

Certain risks associated with an investment in the Series 2016 Bonds are discussed under "BONDHOLDERS' RISKS."

Miscellaneous

This Official Statement (including the Appendices hereto) contains descriptions of, among other matters, the Indenture, the Loan Agreement, the Issuer, the Project, the Borrower and the Series 2016 Bonds. Such descriptions and information do not purport to be comprehensive or definitive. All references to documents described herein are qualified in their entirety by reference to such documents, copies of which are available for inspection at the designated corporate trust office of the Trustee.

THE ISSUER

Formation and Governance

In early 2010, both houses of the Wisconsin Legislature passed 2009 Wisconsin Act 205 (the "Act 205"), which was signed into law by the Governor of the State of Wisconsin (the "State") on April 21, 2010. The Act 205 added Section 66.0304 to the Wisconsin Statutes (the "Statute") authorizing two or more political subdivisions to create a commission to issue bonds under the Statute. Before an agreement for the creation of such a commission could take effect, the Act 205 requires that such agreement be submitted to the Attorney General of the State to determine whether the agreement is in

proper form and compatible with the laws of the State. The Issuer was formed upon execution of a Joint Exercise of Powers Agreement Relating to the Public Finance Authority dated as of June 30, 2010, as amended by an Amended and Restated Joint Exercise of Powers Agreement Relating to the Public Finance Authority dated September 28, 2010 (as amended and as may be further amended from time to time, the “Joint Exercise Agreement”) among Adams County, Wisconsin, Bayfield County, Wisconsin, Marathon County, Wisconsin, Waupaca County, Wisconsin and the City of Lancaster, Wisconsin (each a “Member” and, collectively, the “Members,” which term shall include any political subdivision designated in the future as a “Member” of the Issuer pursuant to the Joint Exercise Agreement). The Joint Exercise Agreement was approved by the Attorney General on September 30, 2010. The Statute also provides that only one commission may be formed thereunder.

Pursuant to the Statute, the Issuer is a unit of government and a body corporate and politic separate and distinct from, and independent of, the State and the Members. The Issuer was established by local governments, primarily for local governments, for the public purpose of providing local governments a means to efficiently, and reliably finance projects that benefit local governments, and nonprofit organizations and other eligible private borrowers in the State and throughout the country.

Powers

Under the Statute, the Issuer has all of the powers necessary or convenient to any of the purposes of the Act 205, including the power to issue bonds, notes or other obligations or refunding obligations to finance or refinance a project, make loans to, lease property from or to enter into agreements with a participant or other entity in connection with financing a project. The proceeds of bonds issued by the Issuer may be used for a project in the State or any other state or territory of the United States, or outside the United States if a participating borrower is incorporated and maintains its principal place of business in, the United States or its territories. The Statute defines “project” as any capital improvement, purchase of receivables, property, assets, commodities, bonds or other revenue streams or related assets, working capital program, or liability or other insurance program, located within or outside of the State.

Local and TEFRA Approvals

Pursuant to the Subsection (11)(a) of the Statute and Section 4 of the Agreement, financing for any “capital improvement project” located outside the State requires approval from the governing body or highest-ranking executive or administrator of at least one political subdivision within whose boundaries the capital improvement project is located (the “Issuer Local Approval Requirement”). The issuance of the Series 2016 Bonds (i) is expected to be approved by the Board of Supervisors of Marathon County, Wisconsin, a Member of the Issuer duly authorized to give such approval on behalf of the Issuer, on October 3, 2016, and (ii) was approved based upon information provided by the Borrower, by the Board of Commissioners of Orange County, North Carolina, on September 20, 2016, in each case after public notice and hearing. Such approvals were given in satisfaction of and in accordance with the requirements of Section 147(f) of the Code and the Issuer Local Approval Requirement, as applicable.

Governing Body

The Joint Exercise Agreement provides for a Board of Directors of the Issuer (the “Board”) consisting of seven directors (each a “Director” and collectively, the “Directors”), a majority of whom are required to be public officials or current or former employees of a political subdivision located in the State. The Directors serve staggered three-year terms. The Directors are selected by majority vote of the Board based upon nomination from the organization that nominated the predecessor Director. Four Directors are nominated by the Wisconsin Counties Association, and one Director is nominated from each of the National League of Cities, the National Association of Counties and the League of Wisconsin

Municipalities (collectively, the “Sponsors” and each a “Sponsor”). Each of the nominating organizations may also nominate an alternate Director for each Director it nominates to serve on the Board in the place of and in the absence or disability of a Director. Directors and alternate Directors may be removed and replaced at any time by the Board upon recommendation of the Sponsor that nominated such Director.

The Directors as of the date of this Official Statement are identified in the table below. There is currently one vacant Board seat (representing the nominee of the National League of Cities) and one Alternate Director (nominated by the Wisconsin Counties Association).

Name	Title	Position
William Kacvinsky	Chair	Former Board Chair – Bayfield County, Wisconsin
Jerome Wehrle	Vice Chair	Former Mayor, City of Lancaster, Wisconsin
Heidi Dombrowski	Treasurer	Finance Director, Waupaca County, Wisconsin
Allen Buechel	Secretary	County Executive, Fond du Lac County, Wisconsin
Del Twidt	Director	Former Board Chair, Buffalo County, Wisconsin
Michael Gillespie	Director	Former Chair, Madison County, Alabama Board of Commissioners
John West	Alternative Director*	Board Chair -- Adams County, Wisconsin

* Mr. West is an alternate for Directors Buechel, Dombrowski and Twidt.

The Issuer has no employees and contracts with a full-service program management firm, GPM Municipal Advisors, to manage the day-to-day operations of the Issuer including but not limited to staff and administrative support and ongoing compliance matters. All of the services provided by GPM Municipal Advisors are subject to review and approval by the Board.

Resolution; Approval

On October 5, 2016, the Board is expected to adopt the Resolution approving the issuance of the Series 2016 Bonds.

Special Limited Obligations

THE SERIES 2016 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE AND EXCEPT FROM SUCH SOURCE, NONE OF THE ISSUER, ANY SPONSOR (AS DEFINED HEREIN), ANY MEMBER (AS DEFINED HEREIN), ANY ISSUER INDEMNIFIED PARTY (AS DEFINED IN THE INDENTURE), THE STATE OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2016 BONDS SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST THEREON OR ANY COSTS INCIDENTAL THERETO. THE SERIES 2016 BONDS ARE NOT A DEBT OF THE STATE AND DO NOT, DIRECTLY, INDIRECTLY OR CONTINGENTLY, OBLIGATE, IN ANY MANNER, ANY MEMBER, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2016 BONDS TO LEVY ANY TAX OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE SERIES 2016 BONDS OR ANY COSTS INCIDENTAL THERETO. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ANY MEMBER, THE STATE OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2016 BONDS NOR THE FAITH AND CREDIT OF THE ISSUER, ANY SPONSOR OR ANY ISSUER INDEMNIFIED PARTY SHALL BE PLEDGED TO THE PAYMENT OF THE PRINCIPAL

OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2016 BONDS, OR ANY COSTS INCIDENTAL THERETO. THE ISSUER HAS NO TAXING POWER.

Other Obligations

The Issuer has issued, sold and delivered in the past, and expects to issue, sell and deliver in the future, obligations other than the Series 2016 Bonds, which other obligations are and will be secured by instruments separate and apart from the Indenture and the Series 2016 Bonds. The holders of such obligations of the Issuer will have no claim on the security for the Series 2016 Bonds, and the owners of the Series 2016 Bonds will have no claim on the security for such other obligations issued by the Issuer.

Limited Involvement of the Issuer

The Issuer has not participated in the preparation of or reviewed any appraisal, any feasibility study or other financial analysis of the Project and has not undertaken to review or approve expenditures for the Project, to supervise the construction of the Project, or to review the financial statements of the Borrower.

The Issuer has not participated in the preparation of or reviewed this Official Statement and is not responsible for any information contained herein, except for the information in this section and under the caption “ABSENCE OF MATERIAL LITIGATION – The Issuer” as such information applies to the Issuer.

THE BORROWER

The Borrower operates a co-educational Quaker school known as Carolina Friends School located just west of Durham, North Carolina that serves students from preschool (age three) through 12th grade. The Borrower has received a determination letter to the effect that it is an organization exempt from federal income taxation pursuant to Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”), as a result of the application of Section 501(c)(3) of the Code. Proceeds of the Series 2016 Bonds will be used to (i) finance the acquisition, construction and equipping of a new performing arts center and other capital improvements on the Borrower’s main campus (the “Project”), (ii) fund a debt service reserve fund, and (iii) pay certain issuance expenses of the Series 2016 Bonds. Additional information about the Borrower is located in APPENDIX A – “THE BORROWER” in this Official Statement.

THE PROJECT

Half of all Upper School students and two-thirds of all Middle School students take part in the performing arts program. Proceeds of the Series 2016 Bonds will be used to construct and equip a 12,600 square-foot main performance auditorium on the Borrower’s main campus. The School has selected C.T. Wilson Construction Company (“C.T. Wilson”) in Durham as its general contractor for the Project. C.T. Wilson has experience in constructing educational facilities in the Durham area and has worked with the School on past projects. The School has entered into a gross maximum price contract with C.T. Wilson.

THE SERIES 2016 BONDS

Interest; Maturity; Payment

The Series 2016 Bonds will be issued in the aggregate principal amounts and will bear interest as set forth on the inside cover hereof. Interest will be payable semiannually on February 1 and August 1

(each an “Interest Payment Date”) of each year, commencing February 1, 2017. Interest will be calculated on the basis of a 360-day year with 12 months of 30 days.

The Series 2016 Bonds will be issued in the form of fully registered bonds without interest coupons in the denomination of \$5,000 or any integral multiple of \$5,000 in excess thereof.

The principal of, interest on, and premium, if any, on the Series 2016 Bonds shall be payable when due by wire of the Trustee to The Depository Trust Company, New York, New York (“DTC”), which will in turn remit such principal, interest and premium, if any, to Participants (as defined below), which Participants will in turn remit such principal, interest and premium, if any, to the Beneficial Owners (as defined below) of the Series 2016 Bonds as described herein. See Appendix F – “BOOK ENTRY ONLY SYSTEM” below.

In the event the Series 2016 Bonds are not registered in the name of Cede & Co., as nominee of DTC, or another eligible depository as described below, the principal of and premium, if any, on each Series 2016 Bond will be payable only at the designated corporate trust office of the Trustee, as described in the Indenture. Payment of interest on the Series 2016 Bonds will be paid by check or draft mailed on each Interest Payment Date by the Trustee to the registered owners of record appearing on the registration books kept by the Trustee as of the applicable Regular Record Date preceding each Interest Payment Date, or upon written request, as provided in the Indenture, of any registered owner of at least \$500,000 in aggregate principal amount of Bonds Outstanding, by wire transfer on each Interest Payment Date to the account designated by such registered owner to the Trustee in writing at least ten Business Days prior to the Regular Record Date for any interest payment.

The registered owner of any Series 2016 Bond will be the person or persons in whose name or names a Series 2016 Bond is registered on the registration books kept for that purpose by the Trustee in accordance with the terms of the Indenture.

Redemption

Mandatory Sinking Fund Redemption. The Series 2016 Bonds maturing August 1, 2030 will be subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount so to be redeemed plus accrued interest to the redemption date, on August 1 in accordance with the following schedule:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2027	\$135,000	2029	\$145,000
2028	140,000	2030*	150,000

*Maturity

The Series 2016 Bonds maturing August 1, 2036 will be subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount so to be redeemed plus accrued interest to the redemption date, on August 1 in accordance with the following schedule:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2031	\$155,000	2034	\$175,000
2032	160,000	2035	180,000
2033	165,000	2036*	185,000

*Maturity

The Series 2016 Bonds maturing August 1, 2047 will be subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount so to be redeemed plus accrued interest to the redemption date, on August 1 in accordance with the following schedule:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2037	\$195,000	2043	\$245,000
2038	200,000	2044	255,000
2039	210,000	2045	265,000
2040	220,000	2046	280,000
2041	225,000	2047*	290,000
2042	235,000		

*Maturity

Optional Redemption. The Series 2016 Bonds are subject to redemption at the option of the Issuer (which option shall be exercised upon the written direction of the Borrower from prepayment of the Series 2016 Promissory Note made by the Borrower pursuant to the Loan Agreement) in whole or in part in Authorized Denominations on any date commencing August 1, 2026, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

In case of optional redemption of the Series 2016 Bonds, the Borrower shall, at least 45 days prior to the redemption date (unless a shorter notice shall be satisfactory to the Trustee), deliver a written request to the Issuer and the Trustee notifying the Issuer and the Trustee of such redemption date and of the principal amount of the Series 2016 Bonds to be redeemed and shall, prior to the redemption date, deliver to the Trustee funds sufficient to pay the redemption price of all Series 2016 Bonds subject to redemption.

Extraordinary Mandatory Redemption. The Series 2016 Bonds are subject to extraordinary mandatory redemption, at a redemption price equal to the principal amount to be redeemed plus accrued interest to the redemption date, if as a result of any changes in the Constitution of the State of Wisconsin or the State of North Carolina or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after the consent thereof by the Borrower in good faith, the Loan Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purposes of the parties expressed in the Loan Agreement.

Notice of Redemption; Payment

In every case of redemption, the Trustee shall cause notice of such redemption by mailing by first-class mail a copy of the redemption notice to the Registered Owners of the Series 2016 Bonds designated for redemption, in whole or in part, not more than 60 or less than 20 days prior to the redemption date; provided, however, that failure to give such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of such Series 2016 Bonds. The Trustee may state that the redemption is conditioned upon receiving from the Borrower, prior to the redemption date, sufficient monies to redeem such Series 2016 Bonds and that if such money is not so received, no Series 2016 Bonds shall be redeemed.

Each notice of redemption shall specify the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of the Series 2016 Bonds to be redeemed, that interest accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue. If less than all the Outstanding Series 2016 Bonds are to be redeemed, the notice of redemption shall specify the numbers of the Series 2016 Bonds or portions thereof to be redeemed.

Method of Selecting Bonds

Unless otherwise specifically stated in the Indenture (including, specifically at the written direction of the Borrower), in the case of any partial redemption of Series 2016 Bonds, the Series 2016 Bonds called for redemption shall be redeemed in inverse order of maturity, or if less than all of the Series 2016 Bonds of a single maturity are being redeemed, the Series 2016 Bonds redeemed shall be selected by lot within such maturity. Optional redemptions of term Bonds will be credited against the latest scheduled mandatory sinking fund payment for such Bonds unless otherwise specified by the Borrower.

Additional Bonds

Pursuant to the Indenture, the Issuer, at the request of the Borrower, may (but shall be under no obligation to) issue Additional Bonds for the Borrower, secured and payable on a parity basis with the Series 2016 Bonds, provided that, prior to the issuance of any such Additional Bonds, certain terms and conditions have been met. See APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – The Indenture – Additional Bonds.”

The Loan Agreement also provides similar limitations on the Borrower’s ability to incur Indebtedness on parity with the Series 2016 Bonds, provided that certain tests are satisfied. See APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – The Loan Agreement – Limitations on Additional Indebtedness.”

Ownership

The person in whose name a Series 2016 Bond is registered may be treated for all purposes as the owner thereof.

SECURITY FOR THE SERIES 2016 BONDS

Limited Obligations

THE SERIES 2016 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE TRUST ESTATE AND EXCEPT FROM SUCH SOURCE, NONE OF THE ISSUER, ANY SPONSOR, ANY MEMBER, ANY ISSUER INDEMNIFIED PARTY, THE STATE OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2016 BONDS SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST THEREON OR ANY COSTS INCIDENTAL THERETO. THE SERIES 2016 BONDS ARE NOT A DEBT OF THE STATE AND DO NOT, DIRECTLY, INDIRECTLY OR CONTINGENTLY, OBLIGATE, IN ANY MANNER, ANY MEMBER, THE STATE OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2016 BONDS TO LEVY ANY TAX OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE SERIES 2016 BONDS OR ANY COSTS INCIDENTAL THERETO. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF ANY MEMBER, THE STATE OR ANY POLITICAL

SUBDIVISION OR AGENCY THEREOF OR ANY POLITICAL SUBDIVISION APPROVING THE ISSUANCE OF THE SERIES 2016 BONDS NOR THE FAITH AND CREDIT OF THE ISSUER, ANY SPONSOR OR ANY ISSUER INDEMNIFIED PARTY SHALL BE PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2016 BONDS OR ANY COSTS INCIDENTAL THERETO. THE ISSUER HAS NO TAXING POWER.

Trust Estate

Under the Indenture, the following are pledged to the Trustee as security for the Series 2016 Bonds (collectively, the “Trust Estate”):

- (i) The rights and interests of the Issuer under the Loan Agreement, as amended from time to time, between the Issuer and the Borrower, except the Issuer’s Unassigned Rights.
- (ii) The rights and interests of the Issuer under the Series 2016 Promissory Note.
- (iii) All Funds created in the Indenture (other than the Cost of Issuance Fund), except for (a) moneys or obligations deposited with or paid to the Trustee for the payment or redemption of Bonds that are no longer deemed to be Outstanding under the Indenture, (b) all trust accounts containing all insurance and condemnation proceeds, and (c) all Revenues payable to the Trustee by or for the account of the Issuer pursuant to the Loan Agreement and the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

Capitalized terms used but not defined herein have the meanings assigned thereto in APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – Definitions.”

Debt Service Reserve Fund

On the date of issuance of the Series 2016 Bonds, the Borrower will deposit an amount equal to \$302,800.00 from the Series 2016 Bond proceeds, which amount shall be equal to the Debt Service Reserve Requirement for the Series 2016 Bonds, in the account for the Series 2016 Bonds in the Debt Service Reserve Fund created under Indenture with the remainder funded from Bond proceeds. Amounts in the Debt Service Reserve Fund will secure only the Series 2016 Bonds and may be used by the Trustee to pay principal of, premium, if any, and interest on the Series 2016 Bonds in the event monies in the Bond Fund are insufficient for such purpose. There is no guarantee that the Debt Service Reserve Fund will be available to pay debt service on the Series 2016 Bonds.

Amounts in the Debt Service Reserve Fund are required to be valued semiannually as provided in the Indenture. The Borrower is required to cure any deficiency in the Debt Service Reserve Fund that occurs as a result of a valuation on or prior to the first day of the month following that valuation date, and if the deficiency occurs as a result of a transfer to cure a shortfall in the Bond Fund, the Borrower is required to restore such withdrawal in six substantially equal monthly installments beginning in the month following such deficiency. If amounts in the Debt Service Reserve Fund are in excess of the Debt Service Reserve Requirement, such excess amount shall be transferred to the Bond Fund. See “SECURITY FOR THE SERIES 2016 BONDS – Debt Service Reserve Fund” and APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – The Indenture – Debt Service Reserve Fund.”

Payments under the Loan Agreement; Assignment of Loan Agreement

Monthly Loan Payments from the Borrower are required under the Loan Agreement and the Series 2016 Promissory Note to be paid in amounts that will be sufficient, if paid promptly and in full, to pay when due all principal of, premium, if any, and interest on the Loan and certain ongoing costs. Under the Indenture, the Issuer has pledged its interest in the Loan Agreement (including the payments payable thereunder to the Issuer by the Borrower, but excluding the Issuer's Unassigned Rights) to the Trustee to secure the Series 2016 Bonds. See APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – The Loan Agreement." The Trustee is authorized to exercise the rights of the Issuer (other than the Issuer's Unassigned Rights) and enforce the obligations of the Borrower under the Loan Agreement.

Debt Service Coverage Ratio

The Borrower is required to deliver annually, upon completion of the Borrower's annual audit, to the Issuer and the Trustee, a certificate stating the Debt Service Coverage Ratio for the Fiscal Year then ended and evidencing the calculation therefore, commencing with the Fiscal Year ending June 30, 2017. The Debt Service Coverage Ratio is required to be at or above 1.25 to 1 for the Fiscal Years ending June 30, 2017, and for any Fiscal Year thereafter. If for any Fiscal Year ending on or after June 30, 2017, such Debt Service Coverage Ratio is below 1.25 to 1, the Borrower shall retain, at its expense, an Independent Consultant to submit a written report and make recommendations within 60 days of being retained (a copy of such report and recommendations shall be filed with the Underwriter and the Trustee) with respect to increasing income of the Borrower, decreasing Operating Expenses or other financial matters of the Borrower which are relevant to increasing the Debt Service Coverage Ratio to at least the required level. The Borrower agrees that promptly upon the receipt of such recommendation, subject to applicable requirements or restrictions imposed by law, it shall revise its methods of operation and take such other actions to comply with any reasonable recommendation of the Independent Consultant identified in the report of the Independent Consultant. The Trustee is required to notify Registered Owners of the Outstanding Bonds of the Debt Service Coverage Ratio if the Debt Service Coverage Ratio is below 1.00 to 1. So long as the Debt Service Coverage Ratio is not below 1.00 to 1, and so long as the Borrower shall retain an Independent Consultant and complies with such Independent Consultant's recommendations (except as set forth above), no default or Event of Default shall be declared solely by reason of a violation of the requirements described in this paragraph. Notwithstanding the foregoing, the failure of the Borrower to have a Debt Service Coverage Ratio of at least 1.00 to 1 for any Fiscal Year ending June 30, 2017 or after shall be an Event of Default under the Loan Agreement.

Debt Service Coverage	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Increase (Decrease) in Unrestricted Net Assets	\$277,597	\$2,108,804	\$1,484,283	\$1,744,738	\$1,799,784
+ Depreciation and Amortization	198,330	210,009	213,526	305,370	366,480
+/- Non-cash or Extraordinary Items	(25,987)	50,000	10,981	30,000	58,679
+ Interest Expense					
- Net Assets Released from Restriction for Capital	(188,150)	(1,846,444)	(1,220,085)	(1,374,794)	(1,730,168)
Net revenues available for debt service	\$261,790	\$522,369	\$488,705	\$705,314	\$494,775
Debt Service	\$297,200	\$297,200	\$297,200	\$297,200	\$297,200
Debt Service Coverage Ratio¹	.88	1.76	1.64	2.37	1.66
Debt Service Coverage Ratio (with approved tuition increase)	1.89	2.77	2.65	3.38	2.67

¹ Does not include tuition increase passed specifically for the payment of annual debt service. Average tuition for the current academic year (2016-2017) was increased by over 7% to account for the impact of estimated annual debt service going forward.

* Unaudited.

Negative Pledge

So long as the Series 2016 Bonds remain outstanding, the Borrower shall not create, incur, assume or permit to come into existence after the date of delivery of the Series 2016 Bonds any mortgage, pledge, lien or other encumbrance of any kind upon all of the Campus of the Borrower and any or all other land, leasehold interests, buildings, machinery, equipment, hardware and inventory of the Borrower located in Orange County, North Carolina as of the date of delivery of the Series 2016 Bonds and used in its trade or business, whether separately or together with other such assets, but not including cash, investment securities, other property held for investment). Notwithstanding the foregoing, in accordance with the Loan Agreement, the Borrower may permit the following liens to come into existence (collectively, the "Permitted Liens"):

- (a) for real estate taxes which are not delinquent;
- (b) for taxes, assessments or governmental charges or levies on its property if they (i) are not delinquent at the time or thereafter can be paid without penalty, and (ii) are being contested in good faith and by appropriate proceedings and with respect to which it has set aside on its books adequate reserves in accordance with generally accepted accounting principles;
- (c) imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens, that arise in the ordinary course of business with respect to obligations not yet due or being contested in good faith and by appropriate proceedings and with respect to which it has set aside on its books adequate reserves in accordance with general accepted accounting principles;
- (d) arising out of pledges or deposits under workmen's compensation laws, unemployment insurance, pensions or other social security or retirement benefits, or similar legislation;
- (e) incidental to the conduct of its business or the ownership of its properties and assets (such as easements, zoning restrictions and restrictive covenants) not incurred in connection with the borrowing of money or the obtaining of advances or credit, and which do not in the aggregate materially detract from the value of their respective properties or assets or materially impair the use thereof in the operation of its business;
- (f) arising out of pledges or deposits to secure performance in connection with bids, tenders, contracts (other than contracts for the payment of money) or leases to which the University is a party in the ordinary course of business;
- (g) any liens securing non-recourse Indebtedness (purchase money security interests) on routine capital equipment used by the Borrower in its normal operations; and
- (h) any liens on pledges, gifts or grants to be received in the future including any income derived from the investment thereof and liens on property received by the Borrower through gifts, grants or bequests, such liens being due to restrictions on such gifts, grants or bequests of property or the income thereon.

Defeasance

Upon certain terms and conditions specified in the Indenture, including provision for the payment of the Series 2016 Bonds, the Series 2016 Bonds or portions thereof will be deemed to be paid and shall no longer be secured by or entitled to the benefits of the Indenture. In that case, the Series 2016 Bonds will be secured solely by the cash and securities deposited with the Trustee for such purpose. See APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – The Indenture – Discharge of Indenture.”

SOURCES AND USES OF FUNDS

Following are the expected sources and uses of funds (excluding investment income) associated with the financing of the Project:

Sources of Funds

Par Amount of Series 2016 Bonds	\$5,310,000
Less Net Original Issue Discount	(20,255)
Borrower Contribution	<u>1,148,123</u>
Total	<u>\$6,437,868</u>

Uses of Funds

Deposit to Project Fund	\$5,880,000
Deposit to Debt Service Reserve Fund	302,800
Costs of Issuance	<u>255,068</u>
Total	<u>\$6,437,868</u>

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DEBT SERVICE SCHEDULE

The following table sets forth, for each fiscal year ending June 30, the amounts required each year to be paid with respect to the Series 2016 Bonds, assuming no prepayment other than for mandatory sinking fund redemptions. Principal payments are payable each August 1, commencing August 1, 2017. Totals may not fund due to rounding.

Fiscal Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2017	--	\$56,567	\$56,567
2018	\$ 95,000	200,200	295,200
2019	95,000	197,350	295,350
2020	100,000	194,425	294,425
2021	105,000	191,350	296,350
2022	105,000	187,675	292,675
2023	110,000	183,375	293,375
2024	115,000	178,875	293,875
2025	120,000	174,175	294,175
2026	125,000	169,275	294,275
2027	130,000	164,175	294,175
2028	135,000	159,381	294,381
2029	140,000	154,913	294,913
2030	145,000	150,281	295,281
2031	150,000	145,488	295,488
2032	155,000	140,144	295,144
2033	160,000	134,238	294,238
2034	165,000	128,144	293,144
2035	175,000	121,769	296,769
2036	180,000	115,113	295,113
2037	185,000	108,269	293,269
2038	195,000	100,900	295,900
2039	200,000	93,000	293,000
2040	210,000	84,800	294,800
2041	220,000	76,200	296,200
2042	225,000	67,300	292,300
2043	235,000	58,100	293,100
2044	245,000	48,500	293,500
2045	255,000	38,500	293,500
2046	265,000	28,100	293,100
2047	280,000	17,200	297,200
2048	<u>290,000</u>	<u>5,800</u>	<u>295,800</u>
Total	\$5,310,000	\$3,873,580	\$9,183,580

BONDHOLDERS' RISKS

Anyone considering investing in the Series 2016 Bonds should carefully examine this Official Statement, including the Appendices hereto. THIS SECTION SETS FORTH A BRIEF SUMMARY OF SOME OF THE PRINCIPAL RISK FACTORS. PROSPECTIVE INVESTORS SHOULD FULLY UNDERSTAND AND EVALUATE THESE RISKS, IN ADDITION TO THE OTHER FACTORS SET FORTH IN THIS OFFICIAL STATEMENT, BEFORE MAKING AN INVESTMENT DECISION.

Limited Obligation

The Series 2016 Bonds are special and limited obligations of the Issuer and are not a debt or liability of any Sponsor, any Member, the State, or any political subdivision thereof, or any subdivision approving the issuance of the Series 2016 Bonds. THE SERIES 2016 BONDS ARE NOT AN OBLIGATION OF THE STATE OF WISCONSIN, THE STATE OF NORTH CAROLINA OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF.

The obligation of the Borrower to make payments on the Series 2016 Promissory Note is a general, unsecured contractual obligation of the Borrower. No representation or assurance can be made that the revenues realized by the Borrower in the amount necessary to make payments at the times and in the amounts sufficient to pay debt service on the Series 2016 Bonds.

Economic and Other Factors

Future economic and other factors may adversely affect the Borrower's revenues and expenses and, consequently, the Borrower's ability to make payments under the Loan Agreement. Among the factors that could have such adverse effects are: decline in the ability of the Borrower and its management to provide education desired and accepted by the population served; general economic factors, including inflation and interest rates; economic developments in the affected service area, including loss of employment; diminishment of the standing of the Borrower in its field; competition from other educational institutions, including other private schools, public schools and charter schools in the areas from which the Borrower draws students; the lessened ability of the Borrower to attract and retain qualified teachers and staff at salaries that permit payment of debt service and expenses; increased costs associated with technological advances; changes in government regulation of the education industry future claims for accidents or other torts and the extent of insurance coverage for such claims; and the occurrence of natural disasters.

Factors Associated with Independent Educational Institutions

There are a number of factors affecting schools in general, including the Borrower, that could have an adverse effect on the Borrower's financial position and its ability to make the payments required under the Loan Agreement. These factors include, but are not limited to, increased costs of compliance with federal or North Carolina laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety and accommodating persons with disabilities; any unionization of the Borrower's work force with consequent impact on wage scales and operating costs of the Borrower; the inability to attract a sufficient number of students; federal requirements to provide services to special education students; unfavorable changes to existing statutes pertaining to the powers of the Borrower and legislation or regulations which may affect program funding; and disruption of the Borrower's operations by real or perceived threats against the school, its employees or students. The Borrower cannot assess or predict the ultimate effect of these factors on its operations or financial results of operations.

Other Schools/Competition for Students

The Borrower competes for students with public and private schools. There can be no assurance that the Borrower will attract and retain the number of students that are needed to produce revenues sufficient to pay the debt service on the Series 2016 Bonds. In addition, states are increasingly considering and, in some states, enacting legislation that would expand the educational choices for its residents beyond the traditional public school system. Charter schools are one example of such options. As charter schools become more commonplace, and as existing charter schools demonstrate a track record of providing an attractive educational choice, the number of charter schools may increase, which could lead to increased competition.

Past Sexual Misconduct

In 2012 five former students shared with the Borrower their accounts of inappropriate touching by a former principal during the 1970s. One of those five also shared an account of inappropriate touching by a former teacher. Upon these former students coming forward, the Borrower hired a law firm to investigate the incidents and publicly acknowledged the abuse in 2014 after consultation with local law enforcement. Since their discovery of the misconduct, the Borrower has not been sued and knows of no threatened lawsuits relating to these incidents.

Litigation

Schools are often the subject of litigation. Educator's professional liability and other actions alleging wrongful conduct and seeking punitive damages often are filed against education providers such as the Borrower. Litigation may also arise from the corporate and business activities of the Borrower, or from employee-related matters. As with educator's professional liability, many of these risks are covered by insurance, but some are not. For example, some business disputes and workers' compensation claims are not covered by insurance or other sources and, in whole or in part, may be a liability of the Borrower if determined or settled adversely. Although the Borrower maintains insurance policies covering educator's professional and general liability, management of the Borrower is unable to predict the availability, cost or adequacy of such insurance in the future. Any inability of the Borrower in the future to secure affordable, adequate insurance may expose the Borrower to litigation risks which may adversely affect the Borrower's ability to generate adequate funds to pay debt service on the Series 2016 Bonds.

Unaudited Financial Statements

The unaudited financial information for the fiscal year ended June 30, 2016 set forth in Appendix A and Appendix C has been prepared by management and is preliminary. Adjustments and modifications to the unaudited financial statements may be identified during the course of the audit process, which could result in significant differences from this preliminary unaudited financial information.

Reputational Risk

The Borrower is subject to financial and other risks, which risks may differ from those of other private, charter or public schools. For example, changes in the reputation of the Borrower; any third-party service providers; affiliates, and/or the Borrower's leadership, faculty or student body, either generally or with respect to certain academic or extra-curricular areas, may affect the Borrower's ability to attract students to projected enrollment levels, and may affect the Borrower's ability to attract quality teachers and staff at competitive salaries. In addition, litigation brought against the Borrower or any of

the other parties listed above by parents, civil authorities, students or former or potential employees may have a materially adverse impact on the reputation of the Borrower. There can be no assurance that these or other factors will not adversely affect the Borrower's ability to generate adequate funds from its operation of Carolina Friends School to pay all Loan Payments when due.

Debt Service Reserve Fund

The Indenture has established the Debt Service Reserve Fund for payment of principal and interest due to the Owners of the Series 2016 Bonds to the extent payments by the Borrower are insufficient to make such payments. If there is a draw on the Debt Service Reserve Fund that is not replenished as required by the terms of the Indenture and the Loan Agreement, or if there is a loss on investments of funds in the Debt Service Reserve Fund, then the amount available in the Debt Service Reserve Fund, together with amounts provided by the Borrower under the Loan Agreement, may be insufficient to pay debt service on the Series 2016 Bonds when due.

Taxation of the Series 2016 Bonds

Purchasers of the Series 2016 Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property and casualty insurance companies, banks, thrifts or other financial institutions or certain recipients of Social Security benefits, are advised to consult their tax advisors as to the tax consequences of purchasing or owning Series 2016 Bonds. No legal opinion is being rendered with respect to whether interest on the Series 2016 Bonds is exempt from State income tax.

The interest on the Series 2016 Bonds may be includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Series 2016 Bonds for a variety of reasons. The exclusion from gross income is dependent upon, among other things, compliance with certain restrictions regarding investment of bond proceeds and continuing compliance by the Borrower with the Loan Agreement and the Tax Agreement under which enforcement remedies available to the Issuer and the Trustee are limited. See "TAX MATTERS" herein.

If interest on the Series 2016 Bonds becomes includable in gross income for federal income tax purposes, the market for and value of the Series 2016 Bonds could be adversely affected. Moreover, there can be no assurance that the presently advantageous provisions of the Code, or the rules and regulations thereunder, will not be retroactively adversely amended or modified, thereby resulting in the inclusion in gross income of the interest on the Series 2016 Bonds for federal income tax purposes. While no such legislation has been proposed or adopted, there can be no assurance that Congress would not adopt legislation applicable to the Series 2016 Bonds or to the Borrower and that the Campus would be able to comply with any such future legislation in a manner necessary to maintain the tax-exempt status of the Series 2016 Bonds. The Borrower is required to use best efforts to comply with federal income tax law requirements in order to maintain the tax-exempt status of the Series 2016 Bonds to the extent that any such other requirements are made applicable to the Campus. There is no assurance, however, that the Borrower would be able to comply with any such other requirements.

IRS Audits

Internal Revenue Service ("IRS") officials have indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector. The Series 2016 Bonds may be, from time to time, subject to audits by the IRS. The Borrower believes that the Series 2016 Bonds properly comply with the tax laws. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Series 2016 Bonds, as described under the caption "TAX MATTERS" herein, which

opinion speaks only as of its date. No ruling with respect to the tax-exempt status of the Series 2016 Bonds has been or will be sought from the IRS, however, and opinions of counsel are not binding on the IRS or the courts and are not guarantees. There can be no assurance that an audit of the Series 2016 Bonds will not adversely affect the tax status of the Series 2016 Bonds.

Incurrence of Additional Indebtedness

The Loan Agreement permits the Borrower to incur additional indebtedness upon compliance with the provisions thereof. The incurrence of such additional indebtedness could increase the economic burden on the Borrower and thereby adversely affect the ability of the Borrower to pay debt service on the Series 2016 Bonds. See APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Limitations on Additional Indebtedness.”

Legal Opinions

The various legal opinions to be delivered concurrently with the delivery of the Series 2016 Bonds will express the professional judgment of the attorneys rendering the opinions on the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to such transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

In addition, such opinions will be qualified as to the enforceability of the various legal instruments by, among others, limitations imposed by North Carolina, Wisconsin and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights generally.

Potential Effects of Bankruptcy

If the Borrower were to file a petition for relief (or if a petition were filed against it as debtor) under the United States Bankruptcy Code, 11 U.S.C. Section 101 et seq., as amended, or other similar laws that protect creditors, the filing could operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the property of the debtor. If the bankruptcy court so ordered, the debtor's property and revenues could be used for the benefit of the debtor despite the claims of its creditors (including the Bondholders of the Series 2016 Bonds).

In a bankruptcy proceeding, the debtor could file a plan for the adjustment of its debts that modified the rights of creditors generally or the rights of any class of creditors, secured or unsecured (including the Bondholders of the Series 2016 Bonds). The plan, when confirmed by the court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. The Borrower is prohibited from creating secured indebtedness except as provided in the Loan Agreement. See APPENDIX B – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Limitation on Additional Indebtedness” which will apply to the Borrower.

Enforcement of Remedies

The remedies available to the Trustee or the Bondholders of the Series 2016 Bonds upon an Event of Default under the Indenture or 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.

Failure to Provide Ongoing Disclosure

The Borrower will execute a Continuing Disclosure Undertaking in connection with the issuance of the Series 2016 Bonds. Failure to comply with the Continuing Disclosure Undertaking in the future may adversely affect the liquidity of the affected Series 2016 Bonds and their market price in the secondary market. See APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Rating Change

The rating on the Series 2016 Bonds may be changed at any time without notice, and no assurance can be given that such rating will not be revised or withdrawn by the rating agency if, in its judgment, circumstances should warrant such action. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series 2016 Bonds.

Secondary Market

There is no guarantee that a secondary trading market will develop for the Series 2016 Bonds. Consequently, prospective bond purchasers should be prepared to hold their Series 2016 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 2016 Bonds.

Conclusion

Each prospective investor should carefully examine this Official Statement, and the Appendices hereto, and such investor’s own financial condition in order to make a judgment as to whether the Series 2016 Bonds are an appropriate investment for such investor.

ENFORCEABILITY OF OBLIGATIONS

On the date of delivery of the Series 2016 Bonds, Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, Bond Counsel, will deliver its opinion, dated the delivery date that the Series 2016 Bonds, the Loan Agreement and the Indenture are valid and legally binding on the Issuer, and are enforceable in accordance with their respective terms. Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, as counsel to the Borrower, will deliver its opinion that the Loan Agreement and the Series 2016 Promissory Note are valid and legally binding agreements of the Borrower, each enforceable in accordance with its respective terms. The foregoing opinions will be generally qualified to the extent that the enforceability of the respective instruments may be limited by laws, decisions and equitable principles affecting remedies and by bankruptcy or insolvency or other laws, decisions and equitable principles affecting creditors’ rights generally.

While the Series 2016 Bonds are secured or payable pursuant to the Indenture, the Loan Agreement and the Series 2016 Promissory Note, the practical realization of payment from any security will depend upon the exercise of various remedies specified in the respective instruments. These and other remedies are dependent in many respects upon judicial action, which is subject to discretion and delay. Accordingly, the remedies specified in the above documents may not be readily available or may be limited.

LEGAL MATTERS

Legal matters incident to the issuance and sale of the Series 2016 Bonds and with regard to the tax-exempt status of interest on the Series 2016 Bonds under existing laws are subject to the legal opinion of, Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, as Bond Counsel. Certain legal matters will be passed on by von Briesen & Roper, s.c., Milwaukee, Wisconsin, as counsel to the Issuer, and by Parker Poe Adams & Bernstein LLP, Raleigh, North Carolina, as counsel to the Borrower. Moore & Van Allen PLLC, Charlotte, North Carolina, has represented the Underwriter in this transaction.

The legal fees paid to Bond Counsel, as well as any of the other foregoing firms, for services rendered in connection with the issuance of the Series 2016 Bonds are contingent upon the actual sale and delivery of the Series 2016 Bonds.

The legal opinions express the professional judgment of counsel rendering them, but are not binding on any court or other governmental agency and are not guarantees of a particular result.

Parker Poe Adams & Bernstein LLP is serving as Bond Counsel to the Issuer and counsel to the Borrower in connection with the Series 2016 Bonds and, from time to time, it, and Moore & Van Allen PLLC, counsel to the Underwriter, have represented the Underwriter and the Trustee in other financing transactions. None of the Issuer, the Underwriter or the Trustee have conditioned the future employment of such firms in connection with any proposed financing issues for the Issuer, the Underwriter or the Trustee on the successful issuance of the Series 2016 Bonds.

TAX MATTERS

General

On the date of issuance of the Series 2016 Bonds, Bond Counsel will render an opinion that, under existing law and assuming compliance by the Issuer and the Corporation with certain provisions of the Internal Revenue Code of 1986, as amended (the “Code”), the interest on the Series 2016 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

The interest on the Series 2016 Bonds will be taken into account in determining adjusted current earnings of certain corporations (as defined for federal income tax purposes), and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporation’s adjusted current earnings over its federal alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

The Code imposes various restrictions, conditions and requirements relating to the exclusion of interest on obligations, such as the Series 2016 Bonds, from gross income for federal income tax purposes, including, but not limited to, the requirement that the Issuer and the Borrower rebate certain excess earnings on proceeds and amounts treated as proceeds of the Series 2016 Bonds to the United States Treasury, restrictions on the investment of such proceeds and other amounts, and restrictions on the ownership and use of the facilities financed or refinanced with proceeds of the Series 2016 Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by the Issuer and the Borrower subsequent to issuance of the Series 2016 Bonds to maintain the excludability of the interest on the Series 2016 Bonds from gross income for federal income tax purposes. Bond Counsel’s opinion is given in

reliance on certifications by representatives of the Issuer and the Borrower as to certain facts material to the opinion and the requirements of the Code.

Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied on representations of the Corporation concerning the Corporation's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Bond Counsel has not given any opinion or assurance concerning Section 513(a) of the Code, and Bond Counsel cannot give or has given any opinion or assurance about the future activities of the Borrower, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed the Series 2016 Bonds in a manner that is substantially related to the Borrower's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Series 2016 Bonds being included in federal gross income, possibly from the date of the original issuance of the Series 2016 Bonds.

The Issuer and the Borrower have covenanted in the Loan Agreement to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2016 Bonds in order that the interest on the Series 2016 Bonds be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of Bond Counsel assumes compliance by the Issuer and the Borrower with such covenants, and Bond Counsel has not been retained to monitor compliance by the Issuer or the Borrower with such covenants subsequent to the date of issuance of the Series 2016 Bonds. Failure to comply with certain of such requirements may cause the interest on the Series 2016 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016 Bonds. No other opinion is expressed by Bond Counsel regarding the federal tax consequences of the ownership of or the receipt or accrual of interest with respect to the Series 2016 Bonds.

If the interest on the Series 2016 Bonds subsequently becomes included in gross income for federal income tax purposes due to a failure by the Issuer or the Borrower to comply with any requirements described above, neither the Trust Agreement nor the Loan Agreement require the Issuer or the Borrower to redeem the Series 2016 Bonds or to pay any additional interest or penalty.

The Internal Revenue Service has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includible in gross income for federal income tax purposes. Bond Counsel cannot predict whether the Internal Revenue Service will commence an audit of the Series 2016 Bonds. Prospective purchasers and owners of the Series 2016 Bonds are advised that, if the Internal Revenue Service does audit the Series 2016 Bonds, under current Internal Revenue Service procedures, at least during the early stages of an audit, the Internal Revenue Service will treat the Issuer as the taxpayer, and the owners of the Series 2016 Bonds may have limited rights, if any, to participate in such audit. The commencement of an audit could adversely affect the market value and liquidity of the Series 2016 Bonds until the audit is concluded, regardless of the ultimate outcome.

Interest on the Series 2016 Bonds is not exempt from State of Wisconsin income taxation.

Bond Counsel's opinion is based on existing law, which is subject to change. Such opinion is further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinion is not a guarantee of a particular result, and is not binding on the Internal Revenue Service or the courts; rather, such opinion represents Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and

covenants that Bond Counsel deems relevant to such opinion. Bond Counsel's opinion expresses the professional judgment of the attorneys rendering the opinion regarding the legal issues expressly addressed therein. By rendering its opinion, Bond Counsel does not become an insurer or guarantor of the result indicated by that expression of professional judgment, of the transaction on which the opinion is rendered, or of the future performance of the Issuer or the Borrower, nor does the rendering of such opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Other Tax Consequences

Prospective purchasers of the Series 2016 Bonds should be aware that ownership of the Series 2016 Bonds and the accrual or receipt of interest on the Series 2016 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property or casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain Subchapter S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Series 2016 Bonds. Bond Counsel does not express any opinion as to any such collateral tax consequences. Prospective purchasers of the Series 2016 Bonds should consult their own tax advisors as to the collateral tax consequences.

Proposed legislation is considered from time to time by the United States Congress that, if enacted, would affect the tax consequences of owning the Series 2016 Bonds. No assurance can be given that any future legislation, or clarifications or amendments to the Code, if enacted into law, will not contain provisions which could cause the interest on the Series 2016 Bonds to be subject directly or indirectly to federal income taxation, adversely affect the market price or marketability of the Series 2016 Bonds or otherwise prevent the owners of the Series 2016 Bonds from realizing the full current benefit of the status of the interest on the Series 2016 Bonds.

Original Issue Discount

The original issue discount in the selling price of each Series 2016 Bond maturing on August 1 in the years 2030, 2036 and 2047 to the extent properly allocable to each owner of such 2016 Bond, is excludable from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Series 2016 Bond over its initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Series 2016 Bonds of such maturity were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to any owner of a Series 2016 Bond during any accrual period generally equals (i) the issue price of such Series 2016 Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Series 2016 Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (iii) any interest payable on such Series 2016 Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excludable from gross income for federal income tax purposes, and will increase the owner's tax basis in such 2016 Bond. Purchasers of any Series 2016 Bond at an original issue discount should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes, and with respect to state and local tax consequences of owning such Series 2016 Bonds.

Original Issue Premium

The Series 2016 Bonds maturing on August 1 in the years 2017 through 2026, inclusive, have been sold at initial public offering prices that are in excess of the amount payable at maturity. An amount equal to the excess of the purchase price of a Series 2016 Bond over its stated redemption price at maturity constitutes premium on such Series 2016 Bond. A purchaser of any Series 2016 Bond at a premium must amortize any premium over such Series 2016 Bond's term using constant yield principles, based on the Series 2016 Bond's yield to maturity. As premium is amortized, the purchaser's basis in such Series 2016 Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to such purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of such Series 2016 Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Series 2016 Bond at a premium, whether at the time of initial issuance or after initial issuance, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Series 2016 Bond.

UNDERWRITING

The Series 2016 Bonds will be purchased by George K. Baum & Company (the "Underwriter"). The Underwriter has agreed to purchase the Series 2016 Bonds for a purchase of \$5,241,955.10 (equal to the par amount of the Series 2016 Bonds less net original issue discount of \$20,254.90 less Underwriter's discount of \$47,790.00), subject to the terms of a Bond Purchase Agreement among the Issuer, the Borrower and the Underwriter. The Bond Purchase Agreement provides that the Underwriter shall purchase all Series 2016 Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The initial offering prices set forth on the inside cover hereof may be changed from time to time by the Underwriter. The Borrower has agreed under the Bond Purchase Agreement to indemnify the Underwriter and the Issuer against certain liabilities, including certain liabilities under federal and state securities laws.

CONTINUING DISCLOSURE

Rule 15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, imposes continuing disclosure obligations on the issuers of certain state and municipal securities to permit underwriters to offer and sell the issuer's securities. The Underwriter is exempt from the continuing disclosure requirements of the Rule, pursuant to the exemptions provided in paragraph (d)(1) of the Rule. In order to comply with the requirements of the Rule, the Borrower has covenanted to provide continuing disclosure pursuant to a Continuing Disclosure Undertaking dated as of October 1, 2016. See APPENDIX E – "FORM OF CONTINUING DISCLOSURE UNDERTAKING." The Borrower has not previously entered into any disclosure undertakings pursuant to the Rule.

ABSENCE OF MATERIAL LITIGATION

The Issuer

To the Issuer's knowledge, as of the date of this Official Statement, there is not pending or threatened, any litigation restraining or enjoining the issuance or delivery of the Series 2016 Bonds or questioning or affecting the validity of the Series 2016 Bonds or the proceedings or authority under which they are to be issued or which in any manner questions the right of the Issuer to enter into the Indenture or the Loan Agreement or to secure the Series 2016 Bonds in the manner provided in the Indenture.

The Borrower

There is no litigation pending or, to the knowledge of the Borrower, threatened, against the Borrower, which in any manner questions the right or ability of the Borrower to enter into the Loan Agreement or to fulfill the obligations imposed upon the Borrower thereby. The Borrower is from time to time involved in various legal actions consistent with the general experience of entities of similar nature and size. While the ultimate outcome of such proceedings currently pending cannot be predicted with certainty, the Borrower believes that the resolution of these legal actions will not have a material adverse effect on the operation or condition, financial or otherwise, of the Borrower.

RATING

Standard & Poor's Rating Services ("S&P") has assigned a rating of "BBB+" to the Series 2016 Bonds, which is reflective of the capacity of the Borrower to fulfill its payment obligations under the Loan Agreement. Such rating reflects only the view of S&P and any desired explanation of the significance of such rating should be obtained from S&P at 55 Water Street, New York, New York 10041.

Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions of their own. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal of any rating may have an adverse effect on the market price of the Series 2016 Bonds.

FINANCIAL STATEMENTS

The audited financial statements of the Borrower as of June 30, 2014 and June 30, 2015, included in this Official Statement as Appendix C, have been audited by Davenport, Marvin, Joyce & Co., LLP, independent certified public accountant, to the extent and for the periods indicated in their report thereon. In addition, the management-prepared unaudited financial statements of the Borrower as of June 30, 2016 are included in Appendix C.

The unaudited financial information for the fiscal year ended June 30, 2016 set forth in Appendix C is preliminary and subject to adjustments and modifications. Adjustments and modifications to the unaudited financial statements may be identified during the course of the audit work, which could result in significant differences from this preliminary unaudited financial information.

MISCELLANEOUS

The Borrower has furnished the information in this Official Statement relating to itself and the Project and has reviewed the information related to the plan of financing and related documents and information. The Issuer has furnished only the information in this Official Statement under the captions "THE ISSUER" and "ABSENCE OF MATERIAL LITIGATION – Issuer." The Underwriter has furnished the information in this Official Statement with respect to the offering prices of the Series 2016 Bonds and the information under the caption "UNDERWRITING; LIMITED OFFERING."

All quotations from, and summaries and explanations of, the Act, the Indenture and the Loan Agreement, and other documents referred to herein do not purport to be complete, and reference is made to such law and documents for full and complete statements of their provisions. Such documents are on file and available for inspection at the office of the Trustee. All references herein to the Series 2016

Bonds are qualified by the definitive forms thereof and the information with respect thereto contained in the Indenture. This Official Statement shall not be construed as constituting an agreement with any purchaser of any Series 2016 Bonds. The cover page, introductory statement and the Appendices attached hereto are part of this Official Statement.

ANY STATEMENTS MADE IN THIS OFFICIAL STATEMENT INVOLVING MATTERS OF OPINION OR OF ESTIMATES, WHETHER OR NOT SO EXPRESSLY STATED, ARE SET FORTH AS SUCH AND NOT AS REPRESENTATIONS OF FACT, AND NO REPRESENTATION IS MADE THAT ANY OF THE ESTIMATES WILL BE REALIZED.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING THE ISSUER CONTAINED UNDER THE CAPTIONS "THE ISSUER" AND "ABSENCE OF MATERIAL LITIGATION - ISSUER," AS SUCH INFORMATION RELATES TO THE ISSUER, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE ISSUER, AND THE ISSUER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE SERIES 2016 BONDS; OR (III) THE FEDERAL INCOME TAX STATUS OF THE INTEREST ON THE SERIES 2016 BONDS OR ANY STATE INCOME TAX STATUS OF THE SERIES 2016 BONDS.

APPENDIX A
THE BORROWER

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APPENDIX A

THE BORROWER

INTRODUCTION

Carolina Friends School (“CFS”, or the “School”) is a Quaker, co-educational Early School through Upper School independent school with its main campus located just west of Durham, North Carolina. For the 2016-2017 academic year, the School enrolled approximately 500 students ranging from preschool (age three) to 12th grade. CFS enrolls students on three campuses: The main campus, which includes campuses for the Early School, Lower School, Middle School, and Upper School, the Chapel Hill Early School Campus, and the Durham Early School Campus. The main campus is situated on 126 wooded acres, with a stream and nature trails, bordering the Duke Forest and across Friends School Road from the Duke Campus Farm.

Founded in 1962 by Durham and Chapel Hill Friends Meeting members as a deliberately racially integrated school, CFS began as a small class of five-year olds and expanded to include and Lower, Middle and Upper School, all while remaining committed to its Quaker roots. The School’s pedagogy is inquiry-based, valuing the student’s perspective in the learning process. Every member of the community plays a vital role in the continuing search for academic excellence in an environment where values matter. Students encounter open-ended questions, undertake original projects of real relevance, explore the natural world, and immerse themselves in service learning. In doing so, they build skills of critical, creative, and independent thinking and expression.

HISTORY AND MISSION

CFS was founded in 1962 by members of the Religious Society of Friends (Quakers) in Chapel Hill and Durham. Two of the original founders, Peter and Martha Klopfer, secured a grant of \$6,000 for an “exploratory study.” They instead used the money to hire a teacher and begin operating the School for a year. CFS did not begin on its current main campus. The School started as a program for five-year-olds at Durham Friends Meeting in 1964, and during the next year a similar program opened at Chapel Hill Friends Meeting. With the programs operating concurrently, the founders secured a site for an independent Lower School.

In 1971, a Middle School opened on the main campus, and soon afterward, an Upper School program began, in conjunction with Guilford College, where students could take their final courses. In 1974, CFS graduated a class of ten students, who had taken classes at CFS and Guilford College. Soon after this class graduated, the Upper School began offering a four-year curriculum. By the mid-80’s the CFS Upper School was recognized by the U.S. Department of Education as one of the nation’s “exemplary private secondary schools.”

Having started with a grant of only \$6,000 in 1962, the School has since grown its annual budget to over \$10 million. In that time, the main campus has grown from six acres to 126 acres.

The School’s Mission Statement is:

“Carolina Friends School is a vibrant and inclusive learning community empowering students to think critically, creatively, and independently. We foster active exploration and quiet reflection, individual endeavor and collaborative engagement. Inspired by Quaker values -- pursuit of truth, respect for all, peaceful resolution of conflict,

simplicity, the call to service -- we teach our children that it is possible to change the world."

The relationship of Quaker philosophy and classroom practice continues to be of central importance in the life of the School.

GOVERNANCE

The Board of Trustees has the ultimate responsibility for the School. The Board sets broad policies about the School's purposes and operation, hires the Head of School, and delegates to her/him the authority to employ and discharge staff. The Board is composed of up to 23 members, drawn from each of the Friends Meetings in Durham and Chapel Hill as well as co-opted members appointed by the Board.

Current members and officers of the Board of Trustees, are listed below. The year of their initial election to the Board, the year their term ends, and their principal business or professional affiliations are included:

Board of Trustees (Academic Year 2015-16)

<u>Board Member</u>	<u>Term Expiration</u>	<u>Occupation</u>
<u>Emeriti Members:</u>		
Martha Klopfer		Founder of CFS
Peter Klopfer		Founder of CFS
<u>Chapel Hill Friends Meeting:</u>		
Matt Drake	2017	Fundraiser (retired)
Bill Jenkins	2016	Epidemiologist/Professor, UNC
Patrick Mann	2018	Nurse Program Manager, Division of Urology
Buffie Webber	2017	Real Estate Agent
<u>Durham Friends Meeting:</u>		
Larry Chapman	2017	Financial Planner and Counselor
John St. Clair	2017	Senior Director, International Officers, RTI International
Nikki Vangsnes	2018	Associate Director, Trent Center for Bioethics
Bill Velto	2016	High School Teacher, Cary Academy
<u>Co-Opted Members</u>		
Tom Bond	2016	Retired
Margaret Campion	2016	Early Childhood Educator (retired)
John DiLiberti	2018	Physician (retired)
Amos Fodchuk	2018	President, Advanced Learning Partnerships
Marsha Green	2016	Communications Strategist, Duke Translation Medicine Institute
Mark Kuhn	2019	Investment Advisor, Kuhn Advisors
Dick Marr	2016	Lawyer/Consultant, self-employed
Hopie Fulkerson Mooney	2017	Therapist, Private Practice
John Richardson	2017	Planning Manager of Sustainability, Town of Chapel Hill
Chris Ringwalt	2016	Senior Scientist, UNC-Chapel Hill
Omid Safi	2018	Professor of Islamic Studies, Duke University

Chari Smith	2017	Drug Discovery Consultant, Princeton University
Hawley Truax	2016	Program Officer, Z. Smith Reynolds Foundation
Felix Wong	2018	Partner, Florida Capital Partners

The School's Board of Trustees 2015-16 committee chair assignments are as follows:

2015-16 Committee Chair Assignments

<u>Committee</u>	<u>Chair</u>
Advancement Committee	Margaret Campion
Audit Committee	Buffie Webber
Business Committee	Mark Kuhn
Governance Committee	Nikki Vangsnes
Investment Committee	Tom Bond
Executive Committee	Marsha Green

ADMINISTRATION

The administration of CFS is the responsibility of the Head of School. The primary administrators assisting the Head of School are the Assistant Head of School for Teaching and Learning, Director of Advancement, Director of Finance and Human Resources, Head Teacher of the Upper School, Head Teacher of the Middle School, Head Teacher of the Lower School and Head Teacher for each of the three Early Schools.

Head of School Transition

In September of 2015, Mike Hanas, the longtime Head of School of CFS, announced his departure. After 12 years leading the School through growth and expansion, Mr. Hanas decided to assume the headship of San Francisco Friends School starting in July 2016. The School quickly named the Assistant Head of School for Teaching and Learning, Renee Prillaman, as interim Head of School, a role she held during Mr. Hanas' sabbatical in the fall of 2015. In January 2016, a search committee comprised of faculty, staff, alumni, parents and students was formed. In addition, a professional search firm, Resource Group 175, was engaged to administer the search for a replacement.

On October 12, 2016, the search committee announced that Karen Cumberbatch will be Head of School, effective July 1, 2017. Ms. Cumberbatch has a 22-year career in independent school administration including 20 years in Quaker schools. Currently she serves as Head of Upper School at Sandy Spring Friends School in Sandy Springs, Maryland. She earned a B.A. from Cornell University and an M.A. from the University of California at Los Angeles. She also completed doctoral coursework in history at the University of Michigan.

Leadership Team

Renee Prillaman, Interim Head of School – Dr. Prillaman has 39 years teaching experience and holds a Ph.D. in Curriculum and Instruction. For 16 years she taught in the CFS Lower and Middle Schools, and spent nine of those years as Head of the Middle School. In 2013, Dr. Prillaman became the School's first Assistant Head of School for Teaching and Learning. She will return to that role once the new Head of School arrives. Dr. Prillaman followed her two children, both CFS graduates, to CFS after teaching at the University of North Carolina at Chapel Hill and Duke University for 10 years. She continues to serve as Adjunct Assistant Professor in the Program in Education at Duke University. Dr. Prillaman has taught for the Southern Association of Independent Schools New Teacher Institute and the North

Carolina Association of Independent Schools New Teacher Institute and completed the Engaging Leadership Institute, a two-year program with the Friends Council on Education. Dr. Prillaman formerly served on the Board of the North Carolina Psychoanalytic Foundation and now serves on its Peaceful Schools North Carolina Committee.

Assistant Head of School for Teaching and Learning – This position is currently vacant while Dr. Prillaman serves as Interim Head of School.

Anthony Clay, Director of Advancement – Mr. Clay returned to CFS in August 2009 as the first Director of Advancement, facilitating alumni, parent, and grandparent relations; development; communications; community partnerships and outreach; and other aspects of the School's external relations. He earned baccalaureate degrees *magna cum laude* in International Relations and History and an Asian Studies Certificate at American University and then completed an M.A. in History and received Phi Beta Kappa honors at Emory University. Mr. Clay has worked as a teacher (in subjects including United States history, government and politics, debate, and economics), college counselor, and advisor at Holland Hall School (Tulsa, Oklahoma), Raleigh Charter High School, Durham Academy, and CFS (2002-2005). He has served in leadership and advisory roles for various professional organizations and non-profits, including Student U, Junior Leadership Durham, Youth Leadership Tulsa, Youth Services of Tulsa, GLSEN, Habitat for Humanity, and the Southern and National Associations for College Admission Counseling.

Katie Collini, Director of Finance and Human Resources – Ms. Collini joined CFS in 2012 as the Director of Finance and Human Resources. A native of Durham, she earned a B.S. in Public Health from the University of North Carolina at Chapel Hill and an M.B.A. from Georgia Tech and is a Certified Public Accountant. Ms. Collini has worked for the North Carolina Office of Rural Health, Enron London, and Ernst & Young LLP out of Atlanta. Ms. Collini returned to Durham in 2007 and worked with the North Carolina School of Science and Mathematics before joining CFS.

Tom Anderson, Head Teacher of Upper School – Ms. Anderson joined the CFS staff in 2013 as the Head Teacher of the Upper School. He has a B.A. from Butler University and an M.A. in History from The College of William and Mary. In addition, Mr. Anderson studied at Columbia University's Klingenstein Summer Institute. He spent 11 years teaching at Charlotte Country Day School, where he served as history department head for eight years.

Kip Kuhn, Head Teacher of Middle School – Mr. Kuhn is the Head Teacher of the Middle School. After completing a student teaching experience in New Zealand, Mr. Kuhn earned his degree in Science Education from Indiana University. He also holds a M.Ed. in Educational Leadership and Supervision from Ball State University. Mr. Kuhn has 19 years of experience in education, including eight years teaching for the Park County School District outside of Breckenridge, Colorado, three years teaching at the American Community School of Amman in Amman, Jordan and six years at Wasatch Academy in Mount Pleasant, Utah, where he served as a Science Teacher and Advisor, Head of the Science Department, Co-Director of Academics, founding Director of Middle School, and Assistant Head of School.

Lisa Wilson Carboni, Head Teacher of Lower School – Dr. Carboni joined the Lower School as Head Teacher in 2007. She taught elementary school for many years before earning her Ph.D. in Curriculum and Instruction with an emphasis in elementary mathematics at the University of North Carolina at Chapel Hill. After working as the Director of Teacher Education at Duke University, she decided to return to teaching and came to CFS.

Libby Pittman Pendergrast, Head Teacher of the Early School on the main campus – Ms. Pendergrast earned a degree in Child Development from the University of South Carolina. She started her teaching career in a first grade public school classroom as part of the Project Head Start initiative. She began teaching at the Durham Early School kindergarten where she later became the Head Teacher. She also taught at the Chapel Hill Early School and when a third early school, located on the main campus, became possible, Ms. Pendergrast was asked by the School to develop this early school from its beginning. She has been the Head Teacher there since and also served as Clerk of the Staff for eight years.

Sue Caldwell Donaldson, Head Teacher for the Chapel Hill Early School – Ms. Donaldson graduated from the University of Rhode Island in 1973 with a B.S. degree in Child Development. After graduating, she planned and initiated the Child Life Program in the pediatric unit of Clara Maass Hospital in Belleville, New Jersey. She then attended Kean College and earned her certification to teach grades 1-8. After 15 years teaching at the preschool, kindergarten, elementary and middle school levels in New Jersey, Ms. Donaldson moved to North Carolina in 1989 and became the lead teacher in a local kindergarten. In 1995, she joined the staff of the Durham Early School as the kindergarten teacher. Six months later, she became the Head Teacher of the Chapel Hill Early School.

Cesanne Berry, Head Teacher for the Durham Early School – Ms. Berry graduated from Hollins University with a B.A. in English. She holds an M.A. in Elementary Education from Lesley College through a Teacher Training Apprentice program at Shady Hill School, both in Cambridge, Massachusetts. Ms. Berry is certified to teach Academic Gifted and Talented elementary students and has taught in the summer program of the Hill Center in Durham for students with diagnosed learning disabilities or attention deficit disorders. She is entering her 25th year of teaching at CFS and her 21st year as the Head Teacher of Durham Early School. Formerly, she was the Director of Creative Arts in Public Schools (CAPS) – a program sponsored by the Durham Arts Council and the Durham Public Schools. She has also taught kindergarten through second grade in the Durham Public Schools and in private schools in Cambridge, Massachusetts, and Philadelphia, Pennsylvania.

GEOGRAPHIC AREA AND FACILITIES

Geography

The School is referred to as “the school in the woods.” Its main campus is located on 126 acres surrounded by woodlands and pastureland. It is located minutes from the heart of Durham (population approximately 262,715), as well as Carrboro, Cary, Chapel Hill, Hillsborough, and the North Carolina capital of Raleigh. The campus has grown from a one-building lower school in 1965 to 18 buildings serving its pre-K through 12th grade students and including classroom buildings, libraries, science and computer laboratories, art and music studios, a performing arts space, two athletic buildings, and a meeting hall. The outdoor spaces at CFS, which include nature trails, a creek, shaded playgrounds, baseball, soccer/ultimate Frisbee fields, and tennis courts, offer an opportunity for outdoor education and exploration. CFS facilities reflect ongoing efforts to reclaim water, recycle waste, and harness geothermal and solar energy. The Quaker Dome, an athletic building renovated in 2013, the Lower School North, a classroom building built in 2015, and the proposed performing arts center use geothermal heating and cooling.

Facilities

<u>Main Campus Buildings</u>	<u>Date of Construction</u>	<u>Year of Last Renovation</u>	<u>Square Footage</u>	<u>Primary use</u>
Annex	1968	1978	1,050	US Classroom
Music House	1968	1978	900	MS Music
Upper School (US) Meeting Hall	2006	-	3,030	US Meeting Space
Upper School Log Building	1973	-	6,020	US Classrooms/Offices
Upper School Resource Building	1993	-	6,370	US Classrooms
Upper School Art/Library	1997	Art-2014	5,760	US Art/Library
Shop	1991	-	1,800	Maintenance/Shop Classes
Gymnasium	1999	-	18,800	PE/Sports
Quaker Dome	1968	2013	5,080	PE/Sports
Center	1986	2003	7,890	Administrative Offices/Performing Space
Middle School (MS)	1970	2002/2014	17,100	MS Classrooms/Offices
Lower School (LS) Brick	1965	1997/2015	8,885	LS Classrooms/Offices
Lower School Library	1991	2015	2,375	LS Library
Lower School North	2015	-	4,000	LS Classrooms
Lower School Art	1991	-	1,625	LS Art Classroom
Campus Early School	1988	1998	1,925	Early School Classroom
Makers Space	2015	-	600	US Maker & Physics Lab
Upper School Music Hut	1980	-	640	US Music

LOCAL ECONOMY

The School has benefitted from the local economy. Located in Durham, CFS is located just west of a “AAA” rated city within a “AAA” rated county within a “AAA” rated state. The “Triangle Area” of Durham, Raleigh and Chapel Hill has traditionally and still claims three key drivers to its success: government, higher education and research. Over 40% of adults in Durham County possess at least a bachelor’s degree, compared with 27% nationally. The area’s attractiveness to business and industry is enhanced by its central East Coast location. With more than 118 million people living within a 550-mile radius (one day’s travel time), the Triangle Area is accessible to approximately 43% of the nation’s population. The population of the Triangle’s combined Metropolitan Statistical Area, which includes Chatham, Durham, Franklin, Harnett, Johnston, Orange, Person and Wake counties was estimated by the US Census Bureau, to be over two million in 2013 (latest year for which data is available).

Four major universities are located within the Triangle: Duke University, North Carolina State University, the University of North Carolina at Chapel Hill and North Carolina Central University, a constituent institution of The University of North Carolina System. Each has grown in recent years and now provide undergraduate and graduate educational opportunities to over 75,000 students.

The Research Triangle Park is one of the largest planned research parks in the world, covering over 7,000 acres. Founded in 1959, it is in close proximity to the four universities cited above. It has grown steadily from its founding of 200,000 square feet of space in 1960 to some 22.5 million square feet of developed space today. Over 200 companies with 50,000 employees are located in RTP, including International Business Machines (IBM), Cisco, RTI International, Syngenta, Fidelity Investments and GlaxoSmithKline (GSK).

Often called the “City of Medicine,” Duke University Hospital, Duke Regional Hospital and the Durham Veterans Administration Medical Center are all located in Durham. Within Durham County, nearly one-third of the workforce is employed in the health-care related field. In addition, the physician to population ratio is four times that of the national average.

CURRICULUM

The School’s 500 students are in four divisions: Early Schools, Lower School, Middle School, and Upper School.

Lower School

The Lower School curriculum endeavors to provide an enriching education for the whole child, nurturing the intellectual, social, emotional, and physical growth of every student. The curriculum spans and often integrates substantive experiences within science, social studies, Spanish, technology, physical education, creative movement, art, and music. Each fall, teachers administer a series of individualized, informal diagnostics to assess where in these areas of the program each student is ready to begin. Students then proceed through the year at their own rates, working independently and in small groups, under the careful supervision of their teachers.

Middle School

The heart of the Middle School lies in its social curriculum, building community and fostering authentic interpersonal relationships among students and staff. In the Middle School students grow academically and personally through a process of active exploration and problem solving, taking on increasing responsibility for themselves and their learning. The experience offers a thoughtful balance of required and elective classes based on recommended best practice for middle level education. The curriculum seeks to address the varying interests of the Middle School student while providing a solid foundation in the basic skills.

Upper School

A wide variety of courses are offered in the Upper School each term. Staff members seek to meet students where they are and challenge them to achieve on an individual level. Instead of assigning letter or numerical grades, the Upper School uses a non-graded, non-ranked, narrative evaluation system that is personal and comprehensive. Each trimester, families receive extensive written evaluations that review the student’s overall progress in each course including: achievement on papers and exams, contributions to class, sense of responsibility, and growth of understanding. Students earn credit or no credit for each course.

Clubs/Activities

Clubs at CFS are developed and sustained out an interest from the students. Some clubs have been in place for many years and others are developed in any given year due to an emerging enthusiasm among the students. The below list includes the clubs that are currently in operation in the Middle School and Upper School:

Middle School

- Eco Chicos
- GLOW (Gay, Lesbian or Whatever)

Upper School

- Environmental Club
- Entrepreneurial Club
- Investment Club
- Diversity Multicultural Club
- Animal Rights Club
- Anime Club
- Ethics Bowl
- Madagascar Club
- Mental Health Awareness Club
- Nerdfighters
- Prom Committee
- Quaker N' Oats
- Queer Straight Alliance
- School Life Committee
- Women's Group

Extended Learning

The School is in the process of developing its Extended Learning Program. This program will build upon the School's established after school and summer programs and offer additional innovative enrichment programs for all age groups that will operate outside the school day including after school, summer, and off school days. This programming will allow the School to extend its mission and impact beyond the current student population and traditional school day and produce non-tuition revenue.

Athletics

The interscholastic athletic program strives to be grounded in the basic philosophy of the School. The School believes that its philosophy and the competitive spirit of sports can be complementary to one another. The athletic program at CFS provides Middle and Upper School students the opportunity to engage in interscholastic competition in a variety of sports. CFS offers interscholastic sports as an opportunity for students to grow physically, emotionally, and spiritually outside the classroom setting. Below is a table outlining the various athletic offerings of the School:

Athletic Offerings

Fall		Winter		Spring	
<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
Cross Country	Cross Country	Basketball	Basketball	Baseball	Soccer
Soccer	Tennis	Swimming	Swimming	Tennis	Ultimate
	Volleyball	Ultimate	Ultimate	Ultimate	

FACULTY AND STAFF

CFS's faculty focus on all aspects of student growth: intellectual, academic, social and emotional, moral and spiritual, and physical. Faculty enthusiasm and dedication extend beyond the classroom. Faculty recognize the importance of learning not only in the classroom but also in the gym, art studios, and on the playing field. With such a diverse and wide range of experience, the faculty has been recognized for excellence, creativity, and dedication.

For the 2016-2017 academic year, the School's faculty consists of 84 full-time and part-time faculty members. Nine of the School's faculty hold administrative roles on campus. The student to teacher ratio is approximately 9:1 and approximately 50% of the faculty hold a Master's or other advanced degree.

Fifty percent of the School's full-time faculty have over 21 years of teaching experience, and many faculty members have been honored with a wide variety of recognitions and awards. The faculty have been recognized locally, regionally, and nationally for excellence and innovation in teaching and coaching.

The following table depicts the number of full-time and part-time faculty employed by the School for the 2012-13 through current academic years:

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Full-time faculty	58	61	56	60	62
Part-time faculty	<u>10</u>	<u>17</u>	<u>23</u>	<u>22</u>	<u>22</u>
Total faculty	68	78	79	82	84

Full-time w/ advanced degree	26	28	32	31	33
Part-time w/ advanced degree	<u>3</u>	<u>5</u>	<u>11</u>	<u>10</u>	<u>9</u>
Total faculty w/ advanced degree	29	33	43	41	42
Percent of faculty w/ advanced degree	43%	42%	54%	50%	50%

The following table depicts the years of teaching experience of the School's full-time and part-time faculty for the 2016-17 academic year:

Faculty Teaching Experience

<u>Years of Teaching Experience</u>	<u># of Full-Time Teachers</u>	<u># of Part-Time Teachers</u>
0-5 years	4	5
6-10 years	10	3
11-15 years	4	4
16-20 years	9	3
<u>21+ years</u>	<u>31</u>	<u>7</u>
Total	62	22

CFS maintains a flexible faculty. As such, it relies upon a core of part-time teachers to not only complement the existing curriculum but also to provide additional courses where lesser demand is determined. With this approach, the School does not over staff or have teachers teaching courses unless they are specialists in an area. In recent years, the School has experienced little faculty turnover.

For the 2015-16 academic year, the School's mean faculty salary totaled 89% of the National Association of Independent Schools mean salary. The following table compares the mean salaries of the School's faculty with the mean faculty salary for NAIS schools and competitor schools for the past five academic years:

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Carolina Friends School Salary	\$46,089	\$50,141	\$49,007	\$48,517	\$51,441
Average Competitor Salary	43,016	44,208	45,528	45,643	49,838
CFS Salary as % of Competitor Average	107%	113%	108%	106%	103%
NAIS Mean Salary	52,699	53,916	53,926	55,011	57,861
Friends School's Salary as % of NAIS Mean	87%	93%	91%	88%	89%

STUDENT ENROLLMENT

Since its founding, CFS has sought to build and maintain a student body fully representative of the surrounding community. It actively seeks young people diverse in race, nationality, creed, family structure, physical ability, and socioeconomic background. In doing so, it continues to seek students from families whose values are in harmony with Quaker philosophy and with the educational goals of the School. In addition, the School considers the student's potential to benefit from and contribute to the School.

Admission decisions are made by the Admission Committee, which includes the unit Head Teacher and the Director of Admission. The Head of School may review decisions to ensure that they comport with School policy, which is developed by the CFS Board of Trustees. All academic divisions at CFS have a similar application process. This process typically includes a the submission of a completed application, a parent visit, an interview with the parents, and a visit by the prospective student. Four-and five-year old Early School applicants are invited to a play session rather than a visit to the unit during the school day. Applicants who would be enrolling at three years old do not visit during the admission process. Students are either accepted, denied admission, or placed in a waiting pool.

Early Schools Enrollment

On average, over the last five years, 54% of students who applied to the Early School were accepted, and 71% of those students chose to attend one of the Early Schools. The following table shows the number of applications, acceptances, and matriculants over the past four and current academic years:

Admission Statistics (Early Schools)

Academic Year	<u>Applicants</u>	<u>Acceptances</u>	Acceptance <u>Rate</u>	<u>Matriculants</u>	Matriculation <u>Ratio</u>	<u>Enrollment</u>
2012-13	106	50	47%	38	76%	70
2013-14	82	50	61%	33	66%	69
2014-15	106	57	54%	39	68%	69
2015-16	93	53	57%	38	72%	70
2016-17	83	44	53%	33	75%	62

Lower School Enrollment

Students enrolled in one of the School's Early Schools do not need to re-apply to be considered for admission to the Lower School. New applicants to the Lower School must complete the admission process including completing an online application, main campus tour, teacher recommendation, parent interview, and student visit. On average, over the last five years, 40% of students who applied to the Lower School were accepted, and 69% of those students chose to attend the Lower School. The following table shows the number of applications, acceptances, and matriculants over the past four and current academic years:

Admission Statistics (Lower School)

Academic Year	<u>Applicants</u>	<u>Acceptances</u>	Acceptance <u>Rate</u>	<u>Matriculants</u>	Matriculation <u>Ratio</u>	<u>Enrollment</u>
2012-13	43	21	49%	14	67%	124
2013-14	81	27	33%	20	74%	124
2014-15	67	23	34%	17	74%	119
2015-16	53	25	47%	18	72%	119
2016-17	50	19	38%	11	58%	123

Middle School Enrollment

The Middle School has remained the most competitive academic unit at CFS. The average acceptance rate and matriculation rate for the past five years are 29% and 85% respectively. Below is a table outlining the number of applications, acceptance, and matriculants at the Middle School over the past four and current academic years:

Admission Statistics (Middle School)

Academic Year	<u>Applicants</u>	<u>Acceptances</u>	Acceptance Rate	<u>Matriculants</u>	Matriculation Ratio	<u>Enrollment</u>
2012-13	38	14	37%	13	93%	141
2013-14	79	23	29%	21	91%	147
2014-15	75	24	32%	19	79%	145
2015-16	64	18	28%	14	78%	149
2016-17	84	17	20%	14	82%	149

Upper School Enrollment

With the largest student body among the academic units at CFS, the Upper School has also maintained a relatively high matriculation rate with an average of 73% over the past four and current academic years. The Upper School has experienced a higher demand in the past five years having reduced the acceptance rate by 28% since the fiscal year ended June 30, 2012. The following table shows the number of applications, acceptances, and matriculants for the Upper School over the past four and current academic years:

Admission Statistics (Upper School)

Academic Year	<u>Applicants</u>	<u>Acceptances</u>	Acceptance Rate	<u>Matriculants</u>	Matriculation Ratio	<u>Enrollment</u>
2012-13	57	34	60%	27	79%	163
2013-14	62	27	44%	20	74%	159
2014-15	76	36	48%	26	72%	171
2015-16	59	25	42%	19	76%	172
2016-17	75	24	32%	15	63%	174

CFS endeavors to maintain gender balance within each age group. In 2016-17, approximately 46% of students were boys and 54% were girls. The following table depicts the distribution of CFS students by gender for the previous four and current academic years:

Gender Distribution

Academic Year	<u>Male</u>	<u>% Male</u>	<u>Female</u>	<u>% Female</u>	<u>Total Students</u>
2012-13	244	49%	254	51%	498
2013-14	242	48%	258	52%	500
2014-15	233	46%	271	54%	504
2015-16	230	45%	280	55%	510
2016-17	234	46%	279	54%	513

The School is devoted to enrolling a diverse student body representative of today's global society. Over the past five academic years, an average of 23% of the School's students identified as individuals of color. The following table depicts the ethnic composition of the School's student body for the past four and current academic years:

Ethnic Composition of Students

<u>Academic Year</u>	<u>African American</u>	<u>Latino Hispanic</u>	<u>Asian American</u>	<u>Other</u>	<u>Total</u>	<u>% of Total Students</u>	<u>% Increase in Diversity</u>
2012-13	25	20	14	50	109	22%	0.0%
2013-14	26	22	16	50	114	23%	1.0%
2014-15	22	25	18	52	117	23%	0.0%
2015-16	21	23	25	54	123	24%	1.0%
2016-17	15	24	22	61	122	24%	0.0%

Attrition occurs at CFS when students do not enroll for the following year. These decisions by families may involve program choices, family relocation, or financial decisions. Each year there may be a few students who are dismissed or not offered re-enrollment for academic or behavioral reasons.

The following table shows the numbers of students at each grade level as well as the percentage of all students who have withdrawn or have not been granted re-enrollment to the School on an annual basis for the past four and current academic years:

Annual Attrition

<u>Academic Year</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Pre-K	0	4	6	4	1
Kindergarten	6	2	7	3	11
Grade 1	4	4	8	7	2
Grade 2	-	2	2	2	1
Grade 3	5	3	6	2	4
Grade 4	1	3	3	1	1
Grade 5	1	4	4	5	0
Grade 6	2	2	1	3	2
Grade 7	2	2	3	1	1
Grade 8	3	3	7	2	1
Grade 9	10	8	6	8	8
Grade 10	1	7	1	2	0
Grade 11	2	2	3	4	4
Grade 12	4	2	0	1	2
Total	41	48	57	45	38
% of Total Enrollment	9.2%	10.5%	12.6%	9.7%	8.1%

The School has relatively low level of attrition, averaging 10% of its total enrollment over the last five years. In 2016-17, 38 students who had attended the year before did not re-enroll at CFS. Based on attrition surveys or administrative information, the reasons that students did not return were: family relocations, interest in trying another educational experience, and financial decisions.

Scholastic Aptitude Test (“SAT”). The average SAT score for graduating CFS students in 2015-16 was 1660, 111% higher than the NAIS average. The following table shows the average SAT scores for CFS students and the national average over the past five academic years:

Mean SAT Scores

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Combined SAT Score	1808	1793	1772	1790	1660
National Average	1498	1498	1497	1490	1497
Percent of National Average	121%	120%	118%	120%	111%

STUDENT PLACEMENT

Over the past five academic years, graduates have gained acceptance and matriculated at a wide variety of colleges and universities throughout the United States. The following table illustrates the colleges matriculation for School students since 2011:

College Matriculation of Graduates (2011-16)

<u>Institution</u>	<u>Number Matriculated</u>	<u>Institution</u>	<u>Number Matriculated</u>
The University of NC at Chapel Hill	35	Emory University	1
Guilford College	18	Florida A&M University	1
University of NC at Asheville	15	Georgia Institute of Technology	1
University of NC at Greensboro	8	Global College at Long Island University	1
Carleton College	7	Hampshire College	1
North Carolina State University	6	Hendrix College	1
American University	5	Johnson & Wales University	1
Earlham College	5	Juniata College	1
Goucher College	5	Knox College	1
Appalachian State University	4	Maryland Institute College of Art	1
University of Colorado at Boulder	4	McGill University	1
University of NC at Wilmington	4	Meredith College	1
Warren Wilson College	4	Miami University, Oxford	1
Haverford College	3	Mount Holyoke College	1
Kenyon College	3	New York University	1
Oberlin College	3	Northwestern University	1
University of NC at Charlotte	3	Occidental College	1
Wake Forest University	3	Pomona College	1
William Peace University	3	Queens University of Charlotte	1
Brown University	2	Rhode Island School of Design	1
Bryn Mawr College	2	Scripps College	1
Davidson College	2	St. Mary's College of Maryland	1
Eckerd College	2	The American University of Paris	1
Elon University	2	The College of Wooster	1
Furman University	2	The Naropa University	1
Hollins University	2	The New School – All Divisions	1
Reed College	2	The University of Georgia	1
Sarah Lawrence College	2	Tufts University	1
Savannah College of Art and Design	2	Union College	1
Smith College	2	University of California, Los Angeles	1

University of Mary Washington	2	University of Chicago	1
Vassar College	2	University of Cincinnati College	1
Agnes Scott College	1	University of Minnesota, Twin Cities	1
American Academy of Dramatic Arts CA	1	University of NC School of the Arts	1
Bates College	1	University of Rochester	1
Boston University	1	Ursinus College	1
California College of the Arts	1	Virginia Commonwealth University	1
Clark University	1	Washington University in St. Louis	1
Colorado College	1	Williams College	1
Colorado School of Mines	1	Winthrop University	1
Dickinson College	1	Worcester Polytechnic Institute	1
Duke University	1	Xavier University	1

TUITION AND FINANCIAL AID

The following table shows the School's tuition rates by academic divisions for the academic years 2011-12 through the 2016-17 academic year.

Historical Tuition by Program

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
<u>Durham Early School:</u>						
Half day	\$ 9,800	\$ 10,160	\$ 10,710	\$ 11,120	\$ 11,400	\$11,860
Full day	14,080	14,600	15,390	15,970	16,380	17,040
Extended day	16,940	17,570	18,520	19,220	19,700	20,490
<u>Chapel Hill Early School:</u>						
Half day	9,390	9,740	10,270	10,660	10,930	11,860
Full day	13,710	14,220	14,990	15,560	15,950	17,040
Extended day	16,540	17,150	18,080	18,770	19,240	20,490
<u>Main Campus Early School:</u>						
Half day	9,800	10,160	10,710	11,120	11,400	11,860
Full day	14,080	14,600	15,390	15,980	16,380	17,040
<u>Lower, Middle, Upper Schools:</u>						
Lower School	14,020	14,580	15,380	15,970	16,380	17,040
Middle School	15,020	15,580	16,430	17,060	17,860	18,750
Upper School	16,020	16,580	17,460	18,130	19,010	19,960

The School benchmarks its tuition against those of other local area independent schools located in Durham, Raleigh and Cary and independent schools within the state that are similar in size and composition of students. For the 2016-17 academic year, the School's tuition is in line with or slightly below the majority of the other independent schools that the School benchmarks against. For the 2016-17 academic year, the School increased its Lower School tuition by 4%, its Middle School tuition by 5%, and its Upper School tuition by 5%. Over the past five years, the CFS has steadily increased the tuition rates for each academic division, but the tuition rates have remained competitive when compared to other comparable independent schools.

The following table depicts the 2016-17 academic year tuition rates for School and other area schools with which the School compares itself and competes for students:

Comparative 2016-17 Tuition

<u>Institution</u>	<u>Lower School</u>	<u>Middle School</u>	<u>Upper School</u>
Durham Academy (Durham) ¹	\$22,035	\$22,790	\$24,865
Ravenscroft (Raleigh) ¹	19,865	22,650	22,650
Greensboro Day School (Greensboro) ²	18,990	22,500	22,500
Cary Academy (Cary) ¹	N/A	N/A	22,020
Duke School (Durham) ¹	18,064	19,065	N/A
Carolina Friends School	17,040	18,750	19,960
Forsyth Country Day (Winston-Salem) ²	15,990	20,570	22,143
O'Neal School (Southern Pines) ²	14,300	14,300	16,990
Westchester Academy (High Point) ²	13,600	16,610	16,990
Triangle Day School (Durham) ¹	13,335	15,125	N/A

1 local competitors and benchmarking peers

2 statewide benchmarking peers

Financial Aid

From its founding, CFS has been highly committed to inclusivity and socio-economic diversity. For the 2016-17 academic year, CFS committed 11.5% of tuition revenue to assistance for families who cannot pay full tuition. Around a quarter of CFS families pay less than full tuition, with their obligation ranging from \$3,600 to nearly the full published tuition for their unit. In 2016-17, most families paid at least 40% of the published tuition.

It is important to note that even full tuition does not cover the total cost of educating a child at CFS. Each year in excess of \$2,000 per child is drawn from the operating budget, endowment, and/or annual campaign funds.

The School offers payment options to help families with their financial planning. The School uses a trusted third party, Tuition Aid Data Services (TADS), to analyze families' financial situations, taking into account factors like family size, income, savings, expenses, assets and liabilities, and special circumstances. Families apply to TADS online and send them all supporting documents.

Decisions about tuition assistance are independent from the admission or re-enrollment process, although the processes are concurrent so that families can make decisions about enrollment knowing exactly what they will need to pay. The tuition aid process is highly confidential. Teachers are not involved in these deliberations.

Financial Aid Assistance

<u>Academic Year</u>	<u>Total Grants</u>	<u>Number of Grant Recipients</u>	<u>% of all Students</u>	<u>Average Grant</u>	<u>% of Gross Tuition Revenue</u>
2012-13	840,563	127	25.5%	6,619	11.4%
2013-14	854,843	118	23.7%	7,244	10.9%
2014-15	895,486	117	23.5%	7,654	10.9%
2015-16	1,006,037	130	25.5%	7,739	11.1%
2016-17	1,093,663	131	25.5%	8,349	11.5%

The School has a generous tuition remission benefit for children of faculty and staff. The benefit is not reflected in this financial aid data.

FINANCIAL MATTERS

The following summaries and discussions of financial matters should be read in conjunction with the 2015 and 2014 financial statements of CFS, related notes, and independent auditors' report. The financial statements for the past four fiscal years ended June 30 have been audited by Davenport, Marvin, Joyce & Co., LLP.

Accounting Matters

The following table summarizes the Statement of Unrestricted Activities and Changes in Net Assets for CFS for the fiscal years ended June 30, 2012 through June 30, 2016. The information presented in this table was extracted from the audited financial statements of the School for the fiscal years ended June 30, 2012 through June 30, 2015 and the management-prepared financial statements for the fiscal year ended June 30, 2016.

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	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u> <u>(unaudited)</u>
OPERATING ACTIVITIES:					
Revenue, Gains, and Other Support:					
Tuition and fees	\$7,334,874	\$7,787,785	\$8,324,030	\$8,746,322	\$9,098,949
Student aid	(845,153)	(839,523)	(867,332)	(903,616)	(1,006,037)
Net student tuition	6,489,721	6,948,262	7,456,698	7,842,706	8,092,912
Auxiliary services	878,904	1,002,613	894,829	973,087	1,030,537
Private gifts, grants, and contracts	395,645	370,776	421,597	980,982	424,138
Dividends and interest income	27,548	27,783	19,190	19,892	25,182
Gain (loss) on sales of property	-	-	-	-	(57,720)
Net realized and unrealized gain on investments	337,872	314,531	330,347	328,824	-
Net assets released from restrictions	449,120	2,215,507	1,573,252	1,940,210	2,173,315
Total Revenue, Gains, and Other Support	8,578,810	10,879,502	10,695,913	12,085,701	11,688,365
Expenses:					
Instruction	5,629,909	5,977,880	6,233,334	6,500,799	6,871,234
Student services	726,407	828,947	831,530	885,427	1,048,870
Administration	1,434,824	1,426,597	1,688,088	1,778,462	1,648,867
Fundraising	510,073	537,274	458,678	1,176,275	319,610
Total Expenses	8,301,213	8,770,698	9,211,630	10,340,963	9,888,581
Increase in Net Assets	277,597	2,108,804	1,484,283	1,744,738	1,799,784
Net assets, beginning	7,537,958	7,812,410	9,921,214	11,505,037	13,249,774
Net assets, end	<u>\$7,815,555</u>	<u>\$9,921,214</u>	<u>\$11,405,497</u>	<u>\$13,249,775</u>	<u>\$15,049,558</u>

The School's net assets as of June 30, 2012 through 2016 are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u> <u>(unaudited)</u>
Unrestricted	\$7,815,555	\$9,921,214	\$11,405,497	\$13,249,775	\$15,049,558
Temporarily restricted	5,412,740	6,538,270	8,481,819	7,002,840	4,879,593
Permanently restricted	6,356,784	6,362,561	6,369,193	6,410,641	6,469,032
Total Net Assets	<u>\$19,585,079</u>	<u>\$22,822,045</u>	<u>\$26,256,509</u>	<u>\$26,663,256</u>	<u>\$26,398,183</u>

Cash and Investments

The following table shows the total cash net of deferred revenue and investments net of deferred compensation for the School's past five fiscal years:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u> <u>(unaudited)</u>
Cash	\$3,121,524	\$5,524,401	\$5,332,479	\$5,490,640	\$3,857,280
Investments	10,069,752	11,364,441	13,948,007	14,195,538	13,136,389
Total Cash and Investments	<u>\$13,191,276</u>	<u>\$16,888,842</u>	<u>\$19,280,486</u>	<u>\$19,686,178</u>	<u>\$16,993,669</u>

Investment Portfolio

Investment Policy. The School's Investment Policy is created by the School's Investment Committee, which is made up of a minimum of four members including the Head of School and two or more members of the CFS Community with investment expertise. The goal of the investment policy is to maximize the School's long-term investment returns within the Investment Policies. This includes maintaining a net average long-term return on the School's funds at least equal to the endowment's expenditure rate, which is currently set at the three-year weighted average of 5% of market value, plus inflation.

Currently the Investment Policy states that investments must be in the following three Asset Classes: Domestic Large Companies, Domestic Small Companies, and International Companies. Quarterly variance ranges of plus or minus 5% are permitted within each Asset Class. Current policy calls for 75% of each class to be invested with value managers and 25% to be with growth managers. The Investment Committee will meet quarterly to make sure target allocations are being met. Below is a chart outlining the Investment Policy's target allocation:

Investment Target Allocation

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Large Cap	25%
Domestic Mid/Small Cap	45%
International	30%

The table below provides further detail on the School's investment assets, depicting the investment vehicle for the School's investments for the past five fiscal years:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u> <u>(unaudited)</u>
Mutual Funds:					
Small Cap Social Fund	\$3,505,226	\$3,947,522	\$4,925,034	\$4,220,415	\$3,924,246
International Fund	2,292,433	2,654,744	3,136,430	3,042,026	7,744,122
Equities:	2,069,336	2,559,419	3,183,786	3,229,402	3,263,055
Certificates of Deposit:	<u>2,202,757</u>	<u>2,202,757</u>	<u>2,702,757</u>	<u>3,703,695</u>	<u>3,204,966</u>
Total investments	<u>\$10,069,752</u>	<u>\$11,364,441</u>	<u>\$13,948,007</u>	<u>\$14,195,538</u>	<u>\$13,136,389</u>

Endowment Policy. The Endowment funds are carefully invested by professional managers and overseen by the Board's Investment Committee. CFS invests solely in socially responsible companies. Under its endowment spending policy the School may appropriate for expenditure in its annual budget a percentage of the earnings. The Investment Committee approved a reduction in the expenditure rate from 5% to 4.5% to be made over a five-year period to end in 2017-18. For 2014-15 the endowment expenditure rate was set at 4.8% of a 20-quarter weighted average market value. The current policy states that investments in the endowment portfolio are to be 100% in equities.

To ensure good stewardship of CFS's financial and physical plant resource, the policy also requires a maintenance endowment of 20% of the cost of any new facility, including for the Project being financed with the proceeds of the Series 2016 Bonds. This substantial sum allows the School to protect its investment and saves money in the long-term by avoiding deferred maintenance issues.

Discussion of Financial Performance

Over the past five years, the School's total net assets and unrestricted net assets have increased by 56% and 76% respectively. Over the last five years the School has, on average, recorded a \$1.4 million increase in net assets from unrestricted activities. For the fiscal year ended June 30, 2015, the School recorded a positive change in net assets from operations of \$1,744,738. Over the past three years, the School's operating surpluses have increased, primarily as a result of increases in net tuition, gifts, and assets released from restriction. Strong operating results have fostered significant increases in the School's cash and investment reserves to over \$16 million as of June 30, 2015, 17% of which is unrestricted.

Budget Process

The Director of Finance and Human Resources works together with the Head of School and the Board's Business Committee to develop the annual budget. Through analysis of prior year financial, enrollment, and economic trends and consideration of future needs, a draft budget for the following year is developed and presented to the Board's Business Committee at its December meeting. The Business Committee provides a high level review of the draft budget to the full Board at the Board's December meeting. The Business Committee welcomes discussion and solicits feedback from the Trustees. Feedback from the Business Committee and Board of Trustees is considered to further refined the budget, and a final budget is presented to the Business Committee in January. The Business Committee then recommends the budget to the full Board for approval at the full Board's January meeting.

On an on-going basis, the Director of Finance and Human Resources oversees the budget at the unit and department level. Budget reports are provided to budget managers as needed.

Outstanding Indebtedness

In its first 50 years, CFS adhered to the Quaker tradition of avoiding indebtedness. Its physical plant was financed solely through contributions or short-term loans from School Trustees or Endowment funds; however, in 2015, the Board elected to accelerate the School's contrition program and agreed to seek loans from external sources.

Debt Policy. On April 5, 2016 the Board of Trustees at CFS revised their debt policy. The scope of this debt policy applies to all debt, including but not limited to loan agreements, bond issuances, and lines of credit, incurred by the School, regardless of the purpose of the funding or the source of the debt service. The Board of Trustees will approve debt for the following purposes: Construction of a new building, renovation or enhancement of an existing building, or expansion of an existing building. The Board of Trustees will not approve the use of debt for operational and/or routine expenses. The amount of debt permitted by the Board to be incurred by the School will be limited to the amount the School's management is able to service through viable tuition revenue sources and the amount that the School's management is able to secure from a lender. The Board of Trustees could revise the debt policy at a future date by a majority vote. For the 2016-2017 academic year, the Board of Trustees passed a one-time tuition increase that generated an additional \$300,000 dedicated to the payment of debt service on the Series 2016 Bonds.

As of June 30, 2015, the School had no long-term outstanding debt; however, the School has a 35-year lease with Durham Friends Meeting for facilities that house the Durham Early School, which expires in 2036. The School prepaid the entire lease, which resulted in prepaid rent of approximately \$142,341 and \$149,399 for the years ended June 30, 2015 and 2014 respectively.

The School also has a 30-year lease with Chapel Hill Friends Meeting for facilities that house the Chapel Hill Early School, which expires in 2023. The School agreed to pay all maintenance and repairs, as well as all operating costs, utilities, and insurance related to CHES.

DEVELOPMENT

The Advancement Committee is responsible for the cultivation of gifts in support of the School – in the form of cash, irrevocable pledges, appreciated securities, bequests, life insurance, and charitable remainder trusts – in support of the School’s Annual Fund as well as capital campaign and specific fundraising initiatives. The Head of School and the School’s administration are actively engaged in the School’s overall development efforts. Anyone who chooses to provide for the long-term future of CFS by making a planned gift becomes a member of Visionary Friends, a unique membership group at CFS that recognizes donor generosity through planned giving. The School regularly develops alumni programs and events to support fundraising, and to assist the School in communicating with alumni through publications and events. CFS has benefitted from significant philanthropic support in recent years, both through the Annual Fund and capital giving.

The following table outlines the School’s total philanthropic support from all sources, over the past five years:

Sources of Philanthropic Support – All Gifts

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Alumni	\$7,333.38	\$5,149.46	\$43,463.63	\$46,942.64	\$72,968.00
Campus Groups	863,344.84	733,840.17	1,126,160.44	416,199.18	360,432.00
Gifts-In-Kind	-	-	-	-	-
Foundations	25,550.00	210,825.00	151,075.00	368,051.74	30,450.00
Bequests	110,000.00	-	-	-	-
Parents	264,494.97	408,655.63	363,624.00	289,312.79	447,425.00
Friends	166,740.04	492,646.34	344,656.57	320,032.02	279,422.00
Other (events)	564,959.22	66,285.87	69,161.16	115,702.04	42,416.00
Total	<u>\$2,002,422.45</u>	<u>\$1,917,402.47</u>	<u>\$2,098,140.80</u>	<u>\$1,556,240.41</u>	<u>\$1,233,613.00</u>

The table below depicts contributions to the Annual Fund by donor group over the last five fiscal years:

Annual Fund Giving by Donor Group (Fiscal Year 2016)

	<u>Current</u>	<u>Former</u>		<u>Alumni/ Alumni</u>			
	<u>Trustees</u>	<u>Trustees</u>	<u>Parents</u>	<u>Parents</u>	<u>Organizations</u>	<u>Other</u>	<u>Total</u>
# of Donors	24	21	86	119	10	230	490
Total Given	\$88,265	\$11,128	\$102,585	\$89,643	\$23,737	\$56,961	\$372,319
% of Total Raised	24%	3%	28%	24%	6%	15%	100%

Historically CFS has maintained a steady and healthy level of annual giving over the past five academic years. The table below shows total giving for the past five academic years at the School:

Annual Giving

<u>Donor Group</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Alumni	\$5,058.38	\$2,418.46	\$8,725.00	\$3,070.00	\$10,690.00
Current Parents	65,753.00	78,630.99	77,791.00	68,675.63	102,585.00
Other	302,157.37	302,561.88	302,849.15	295,152.04	259,044.00
Total	<u>\$372,968.75</u>	<u>\$383,611.33</u>	<u>\$389,365.15</u>	<u>\$366,897.67</u>	<u>\$372,319.00</u>

Capital Campaign

In November 2011, CFS began the “Building Friends Capital Campaign”, a comprehensive capital campaign designed to raise funds to expand and enhance the spaces for teaching and learning at the School. This was the School’s largest campaign to date, with a goal of raising \$7.75 million. While this campaign is still underway, the School has received gifts of \$7.4 million to date toward this goal. Of this amount, approximately \$994,000 in pledges remain outstanding. Although the School has set no dates for its next capital campaign, it plans to implement a feasibility study to determine appropriate timing. The School estimates that this will be within the next three to five years.

Annual Fund

CFS is committed to providing more resources and more opportunities for its students to learn and grow. Giving to the Annual Fund in support of the School’s operations has been a consistent source of support over the past five fiscal years. The School receives significant annual fund support from trustees, alumni, current parents, and parents of alumni. The School accepts annual fund gifts in the form of cash, checks, stocks, gifts-in-kind, and several other options providing donors with plenty of ways to give back to the School.

Strategic Plan

In December 2008, CFS created their fourth long-range strategic plan, “*Meeting the Challenge*”, which is still in place today. On top of plans for general advancement of the School’s programs and culture, the plan also includes developmental plans for campus facilities. In the first stage of the plan, the focus is on addressing pressing needs to upgrade the School’s existing facilities. Enhancement projects that have been completed include expanding the Middle School space for science, computer labs, and art, expanding the Lower School space for library, art, and music, converting the Quaker Dome – an open-air covered recreation space – to an enclosed multi-purpose athletic facility, and increasing storage space at the Chapel Hill Early School.

To fully realize the vision of the long-range plan, CFS anticipates additional expansion initiatives on its campus. These will include expanding and developing new facilities for performing arts, environmental education, and athletics, while also exploring options for using the life estate land gift from the Klopfer family to further educational goals.

ACCREDITATION AND MEMBERSHIPS

Carolina Friends School is accredited by the Southern Association of Independent Schools and the Southern Association of Colleges and Schools. Its memberships include:

- Friends Council on Education (FCE)
- National Association of Independent Schools (NAIS)
- Southern Association of Independent Schools (SAIS)
- North Carolina Association of Independent Schools (NCAIS)
- North Carolina Independent Schools Athletic Association (NCISAA)
- Triad Athletic Conference (TAC; through 2015-2016)
- Eastern Plains Independent Conference (EPIC; beginning 2016-2017)
- Independent Curriculum Group (ICG--founding member)
- Southern Association of College Admission Counseling (SACAC)
- National Association of College Admission Counseling (NACAC)
- Association of Fundraising Professionals (AFP)
- Council for Advancement and Support of Education (CASE)
- National Business Officers Association.

RETIREMENT PLANS

The School sponsors a contributory defined contribution pension plan covering all employees electing coverage after two years of service with the School or with any nonprofit organization. The School contributes up to 5% of each participant's salary compensation. Effective September 1, 2009, for participants with 11 to 20 years of service and 20 plus years of service, the School will contribute up to 7% and 9%, respectively, of each participant's salary compensation. Employer contribution to the plan for the years ended June 30, 2015 and 2014, totaled approximately \$290,175 and \$281,730, respectively.

INSURANCE

The School carries all standard industry insurance policies, including but not limited to auto, commercial fire, crime, general liability, umbrella, Directors & Officers liability, employment practice liability, trustee and fiduciary liability, business interruption, and workers compensation.

LITIGATION

The School has no knowledge of any threatened or existing claim or litigation for which insurance coverage does not exist or which could otherwise have a material adverse effect on the School's financial condition or its operations.

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Indenture and the Loan Agreement. The summary does not purpose to be complete or definitive and is qualified in its entirety by reference to the Indenture and the Loan Agreement, copies of which are on file with the Trustee.

DEFINITIONS

“Accountant” means any independent certified public accounting firm licensed to practice in the State or in the State of North Carolina (which may be the firm of accountants that regularly prepares or audits the books and accounts of the Borrower) from time to time selected by the Borrower.

“Act” means Sections 66.0301, 66.0303 and 66.0304 of the Wisconsin Statutes, as amended from time to time.

“Act of Bankruptcy” means the filing of a petition in bankruptcy under the United States Bankruptcy Code, or the institution of proceedings under state insolvency or other laws affecting creditors’ rights generally, by or against the Issuer or Borrower as debtor; provided that such filings or proceedings have not been dismissed or, if dismissed, are subject to appeal.

“Additional Bonds” means Bonds that may be issued subsequent to the Series 2016 bonds, as provided in Section 2.11 of the Indenture.

“Additional Payments” means payments to be made by the Borrower to the Issuer and the Trustee pursuant to Section 5.01(f), (h) and (i) of the Loan Agreement.

“Additional Promissory Notes” means any nonnegotiable promissory note or notes, in addition to the Series 2016 Promissory Note, executed and delivered by the Borrower to the Trustee in connection with the issuance of Additional Bonds, as provided in the Loan Agreement.

“Authorized Denomination” means, (a) with respect to the Series 2016 Bonds, \$5,000 and any integral multiple thereof (subject to the restrictions set forth in the Indenture); and (b) in the case of Additional Bonds, the amount specified in the Supplemental Indenture authorizing the issuance thereof.

“Authorized Representative” means in the case of the Borrower, the Board Clerk, the Board Treasurer, the Board Secretary, the Head of School and the Director of Finance and Human Resources and, when used with reference to the performance of any act, the discharge of any duty or the execution of any certificate or other document, any officer, employee or other person authorized to perform such act, discharge such duty or execute such certificate or other document.

“Beneficial Owner(s)” means any Person for which a Participant acquires an interest in the Bonds.

“Bond Closing” means, as to any Series of Additional Bonds, the date upon which such Series of Additional Bonds are delivered for due consideration, and, as to the Series 2016 Bonds, October 20, 2016.

“Bond Counsel” means Parker Poe Adams & Bernstein LLP, or such other firm of nationally recognized attorneys with a proven reputation in the field of municipal finance and experienced in the

financing of facilities for non-exempt persons through the issuance of tax-exempt revenue bonds under the exemption provided under Section 103 of the Code, and approved by the Issuer and the Borrower.

“Bond Fund” means the fund by that name created under the Indenture.

“Bonds” means the Series 2016 Bonds and any Additional Bonds.

“Bond Purchase Agreement” means as to any Series of Additional Bonds, the bond purchase agreement related to such Series of Additional Bonds and, as to the Series 2016 Bonds, means the Bond Purchase Agreement related to the Series 2016 Bonds.

“Borrower” means The Carolina Friends School, a North Carolina nonprofit corporation and PK-12 educational institution, or any surviving, resulting or transferee corporation, as provided in the Loan Agreement.

“Borrower Documents” means the Loan Agreement, the Negative Pledge Agreement, the Series 2016 Promissory Note, the Bond Purchase Agreement, the Continuing Disclosure Agreement and each of the other agreements, certificates, contracts or instruments to be executed by the Borrower in connection with the issuance of the Series 2016 Bonds or the financing of a portion of the expenses associated with the Project.

“Business Day” means any day other than a Saturday or Sunday or a day on which the Federal Reserve System or the Trustee is closed.

“Campus” means the Land and all Buildings thereon.

“Capital Improvements” means the acquisition of land, easements, facilities, and equipment (other than ordinary repairs and replacements), and the construction or reconstruction of improvements, betterments, and extensions which, under Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board, are properly chargeable as capital items.

“Code” means the Internal Revenue Code of 1986, as amended. References to the Code and sections of the Code include relevant applicable regulations thereunder, and any successor provisions to those sections or regulations and, in addition, all revenue rulings, announcements, notices, procedures and judicial determinations under the foregoing applicable to the Tax-Exempt Bonds, including the Series 2016 Bonds.

“Completion Indebtedness” means any Long-Term Indebtedness incurred by any Person for the purpose of financing the completion of Capital Improvements, for which such Long-Term Indebtedness was incurred under the Indenture, to the extent necessary to provide for completion of the Capital Improvements in substantially the same type and scope contemplated at the time that such Long-Term Indebtedness was incurred. Completion Indebtedness may also finance interest on the Completion Indebtedness for a period up to three years from the date of issuance thereof, any reserve funds related to such Completion Indebtedness and the costs and expenses of issuing such Completion Indebtedness.

“Cost of Issuance Fund” means the fund by that name created pursuant to the Indenture.

“Costs of the Project” in connection with the construction, acquisition, improvement or equipping of the Project, means any cost incurred or estimated to be incurred by the Borrower which is reasonable and necessary for carrying out all works and undertakings in providing such Project for the Borrower, including the acquisition of real property and any buildings thereon, the cost of equipment and

furnishings, the construction, acquisition, improvement or equipping of the Project, the cost of necessary studies, surveys, plans and specifications, architectural, engineering, legal or other special services, development, construction and reconstruction necessary or useful in connection with the Project, the reasonable cost of financing incurred by the Borrower or the Issuer in connection with the execution of the Loan Agreement or in the course of the construction, acquisition, improvement or equipping of the Project, including capitalized interest on amounts disbursed in stages, the cost of such other items as may be reasonable and necessary for the construction, acquisition, improvement and equipping of the Project as permitted under the Act, and repayment of debt incurred for the foregoing purposes.

“Debt Service Coverage Ratio” means, for the period being measured, (i) the Increase or Decrease in Net Assets, plus (ii) depreciation and amortization, plus (iii) interest expense for all outstanding indebtedness, plus/minus (iv) any other non-cash or extraordinary items, less (v) net assets released from restriction for capital improvements, divided by the principal and interest on indebtedness coming due in such period.

“Debt Service Reserve Fund” means the fund by that name created pursuant to the Indenture.

“Debt Service Reserve Fund Requirement” means, as of any date, the aggregate of the Series Debt Service Reserve Fund Requirement for all Series of Bonds for which any Bonds of such Series are at the time Outstanding.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Environmental Law” means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§ 9601 *et seq.*; the federal Hazardous Materials Transportation Law, 49 U.S.C. §§ 5101 *et seq.*; the Toxic Substances Control Act, 15 U.S.C. §§ 2601 *et seq.*; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §§ 6901 *et seq.*; the Clean Water Act, 33 U.S.C. §§ 1251 *et seq.* and the Clean Air Act, 42 U.S.C. §§ 7401 *et seq.*; and any other applicable federal or state laws pertaining to the protection of the environment, as any such laws may be amended, modified or supplemented and any regulations promulgated pursuant to any of the foregoing.

“Environmental Requirements” means all applicable federal, State of North Carolina regional or local laws, statutes, rules, regulations or ordinances, concerning public health, or the environment, including, but not limited to, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §9601, *et seq.*; the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, as amended by the Solid and Hazardous Waste Amendments of 1984, 42 U.S.C. §6901, *et seq.*; the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 U.S.C. § 1251, *et seq.*; the Toxic Substances Control Act of 1976, 15 U.S.C. §2601, *et seq.*; the Emergency Planning and Community Right-To-Know Act of 1986, 42 U.S.C. §11001, *et seq.*; the Clean Air Act of 1966, as amended, 42 U.S.C. §7401, *et seq.*; the National Environmental Policy Act of 1975, 42 U.S.C. §4321, *et seq.*; the Rivers and Harbors Act of 1899, 33 U.S.C. §401 *et seq.*; the Safe Drinking Water Act of 1974, as amended 42 U.S.C. §300(f), *et seq.*; and all rules, regulations, policies and guidance documents promulgated or published thereunder, and any State of North Carolina, regional, parish or local statute, law, rule, regulation or ordinance relating to public health, or the environment, including, without limitation those relating to: (a) releases, discharges, emissions or disposals to air, water, land or groundwater; (b) the withdrawal or use of groundwater; (c) the use, handling, or disposal of polychlorinated biphenyls (“PCBs”), asbestos or urea formaldehyde; (d) the transportation, treatment, storage, disposal, release or management of Hazardous Materials (including, without limitation,

petroleum, its derivatives, by-products or other hydrocarbons), and any other solid, liquid, or gaseous substance, exposure to which is prohibited, limited or regulated, or may or could pose a hazard to the health and safety of the occupants of the Campus or any property adjacent to or surrounding the Land; (e) the exposure of persons to toxic, hazardous, or other controlled, prohibited or regulated substances; and (f) any Regulated Chemical.

“Generally Accepted Accounting Principles” means those accounting principles applicable in the preparation of financial statements of the Borrower, as promulgated by the Financial Accounting Standards Board or such other body recognized as authoritative by the American Institute of Certified Public Accountants.

“Fiscal Year” means the twelve-month period commencing on July 1 and ending on June 30.

“Government Obligations” means bills, certificates of indebtedness, notes, bonds or similar securities which are direct obligations of, or the principal and interest of which are unconditionally guaranteed by, the United States of America.

“Indebtedness” means all obligations for payment of principal and interest with respect to money borrowed, incurred or assumed by the Borrower, and all purchase money mortgages, installment purchase contracts, guaranties, leases required to be capitalized in accordance with Generally Accepted Accounting Principles, or other similar instruments in the nature of a borrowing by which the Borrower will be unconditionally obligated to pay.

“Indemnified Parties” means the Trustee Indemnified Parties, the Issuer, and the Issuer Indemnified Parties

“Indenture” means the Indenture of Trust, dated as of October 1, 2016, between the Issuer and the Trustee, including any indentures supplemental thereto made in conformity therewith, pursuant to which the Bonds are authorized to be issued and secured.

“Independent Consultant” means a management consultant or certified public accountant experienced in the management and financing of independent schools in North Carolina.

“Interest Payment Date” means, as to a Series of Additional Bonds, the Interest Payment Date established in the related Supplemental Indenture and, as to the Series 2016 Bonds, means each February 1 and August 1, commencing February 1, 2017.

“Investment” has the meaning set forth in Section 1.148-1(b) of the Regulations.

“Investment Obligations” means the Investment Obligations for any Series of Additional Bonds as set forth in the related Supplemental Indenture and, as to the Series 2016 Bonds, any of the following that at the time are lawful investments under the laws of the State of North Carolina (such legality to be determined by an Authorized Representative of the Borrower and not the Trustee) for the money held under the Indenture:

(a) Government Obligations;

(b) direct and general obligations of any state of the United States of America or any municipality or political subdivision of such state, or obligations of any corporations, if such obligations are rated in one of the two highest rating categories by S&P or Moody’s, or upon the

discontinuance of either or both of such rating services, any other nationally recognized rating service;

(c) negotiable or nonnegotiable certificates of deposit, time deposits, or other similar banking arrangements, issued by any nationally or state-chartered bank or trust company (including the Trustee) or any savings and loan association, domiciled in the State of North Carolina, if either (i) the long-term obligations of such bank or trust company are rated in one of the two highest rating categories by S&P or Moody's, or, upon the discontinuance of either or both of such rating services, any other nationally recognized rating service or (ii) the deposits are continuously secured as to principal, but only to the extent not insured by the Federal Deposit Insurance Corporation, or similar corporation chartered by the United States of America, (1) by lodging with a bank or trust company, as collateral security, obligations described in paragraph (a) or (b) above or, with the approval of the Trustee, other marketable securities eligible as security for the deposit of trust funds under applicable regulations of the Comptroller of the Currency of the United States of America or applicable state law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (2) if the furnishing of security as provided in clause (1) of this paragraph is not permitted by applicable law, in such manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for the deposit of trust funds;

(d) repurchase agreements with respect to obligations listed in paragraph (a) or (b) above if entered into with a nationally or state-chartered bank, trust company or a "broker" or "dealer" (as defined by the Securities Exchange Act of 1934 as amended) which is a member of the Securities Investors Protection Corporation if (i) such obligations that are the subject of such repurchase agreement are delivered to the Trustee or are supported by a safekeeping receipt issued by depository that is a regular market participant in such transactions, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at current market value, calculated no less frequently than monthly, of not less than the repurchase price, (ii) a prior perfected security interest in the obligations which are the subject of such repurchase agreement has been granted to the Trustee, and (iii) such obligations are free and clear of any adverse third-party claims;

(e) commercial paper maturing in 270 days or less and rated in the highest rating category by two nationally recognized rating services;

(f) money market mutual funds invested solely in obligations listed in paragraphs (a), (b) or (c) above;

(g) investment agreements with any nationally or state-chartered bank, financial institution, insurance company or trust company which has long-term debt obligations rated in one of the three highest categories by a nationally recognized rating agency. Should the issuer's or guarantor's credit quality be downgraded below "A," the Trustee must have withdrawal rights;

(h) certificates or receipts issued by any nationally or state-chartered bank, trust company or "broker" or "dealer" (as defined by the Securities Exchange Act of 1934, as amended) which is a member of the Securities Investors Protection Corporation, organized and existing under the laws of the United States of America or any state thereof, the outstanding unsecured long-term debt of which is rated in either of the two highest rating categories by S&P or Moody's, or, upon the discontinuance of either rating service, any other nationally recognized ratings service, in the capacity of custodian, which certificates or receipts evidence ownership or a portion of the principal of or interest on Government Obligations held (which may be in book

entry form) by such bank, trust company or broker or dealer (as defined by the Securities Exchange Act of 1934, as amended) as custodian; and

(i) tax-exempt obligations (as defined in Section 150(a)(6) of the Code and which are not “investment property” as defined in Section 148(b)(2) of the Code) rated in one of the two highest rating categories by S&P or Moody’s, or upon the discontinuance of such ratings service, any other nationally recognized ratings service;

provided that “Investment Obligations” shall not include a financial instrument, commonly known as a “derivative,” whose performance is derived, at least in part, from the performance of any underlying asset, including, without limitations, futures, options on securities, options on futures, forward contracts, swap agreements, structured notes and participations in pools of mortgages or other assets.

“Issuer” means the Public Finance Authority, a joint powers commission and a unit of government and a body corporate and politic under the laws of the State and its successors and assigns.

“Issuer Authorized Signatory” means any officer, director or other person designated by resolution of the Board of Directors of Issuer (whether such resolution is adopted in connection with the issuance of the Bonds or otherwise) or by Issuer’s Bylaws as an “Authorized Signatory” empowered to, among other things, execute and deliver on behalf of the Issuer the Indenture, the other Issuer Documents and the Bonds.

“Issuer Indemnified Party” or “Issuer Indemnified Parties” means (i) the Sponsors, (ii) the Members and (iii) each and all of the Issuer’s, Sponsors’ and the Members’ respective past, present, and future directors, board members, governing members, trustees, commissioners, officers, elected or appointed officials, officers, counsel, contractors, subcontractors, advisors (including, without limitation, financial advisers), agents, Issuer Authorized Signatories and employees, and each of their respective heirs, successors and assigns, individually and collectively.

“Issuer’s Annual Fee” means the Issuer’s annual administration fee determined and payable in the amounts and at the times specified in the Loan Agreement.

“Issuer’s Unassigned Rights” means the rights of the Issuer under the Loan Agreement and under the Indenture to (a) inspect books and records; (b) give or receive notices, approvals, consents, requests, and other communications; (c) receive payment or reimbursement for expenses, including without limitation “Additional Payments” as defined in the Loan Agreement and the Issuer’s Annual Fee; (d) immunity from and limitation of liability; (e) indemnification by the Borrower or any other Person; (f) to enforce, in its own name and on its own behalf, those provisions of the Indenture and of the Loan Agreement and any other document, instrument or agreement entered into with respect to the Bonds that provides generally for the foregoing enumerated rights or any similar rights of the Issuer or any Issuer Indemnified Party. For avoidance of doubt, the “Issuer’s Unassigned Rights” referenced in clauses (d), (e) and (f), above, shall be interpreted broadly to encompass (but not be limited to) the rights of the Issuer and the Issuer Indemnified Parties to immunity from and limitation of liability and indemnification by the Borrower as provided in the Loan Agreement and the right of any such Issuer Indemnified Parties to enforce such rights in his, her or its own name. “Lien” means any mortgage or pledge of, security interest in, or lien or encumbrance on, any property of the Borrower which secures any Indebtedness or other obligation of the Borrower excluding liens applicable to property in which the Borrower has had only a leasehold interest unless the lien secures Indebtedness.

“Loan” means the loan by the Issuer to the Borrower of the proceeds from the sale of the Series 2016 Bonds pursuant to the Loan Agreement.

“Loan Agreement” means the Loan Agreement and any amendments and supplements made in conformity with the requirements thereof and of the Indenture.

“Long-Term Indebtedness” means all Indebtedness, the final maturity of which (taking into account any extensions available at the sole option of the Borrower) is greater than one year after the initial incurrence thereof.

“Maximum Annual Debt Service” means, with respect to any Bonds, as of any date of calculation, the highest principal and interest payment requirements with respect to such Bonds Outstanding for any succeeding Fiscal Year.

“Moody’s” means Moody’s Investors Service, Inc.

“Net Income Available for Debt Service”

“Non-Recourse Indebtedness” means Long-Term Indebtedness incurred for the purpose of financing Capital Improvements or tangible personal property secured by a lien on, or security interest in, the property being financed and evidenced by an instrument which expressly provides that such Long-Term Indebtedness is not on a parity with the Bonds under the Indenture and upon default in the payment of the principal thereof or interest thereon the obligee thereof may look only to the property securing the same and not to the credit of the Borrower nor to any other assets of the Borrower.

“Opinion of Counsel” means an opinion in writing of legal counsel, who may be counsel to the Issuer, the Trustee or the Borrower.

“Outstanding” or “outstanding” means when used with respect to the Bonds, as of any particular time, all Bonds which have been duly authenticated and delivered by the Trustee under the Indenture, except:

- (a) Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancellation after purchase in the open market or because of payment at, or redemption prior to, maturity;

- (b) Bonds for the payment or redemption of which cash funds (or securities to the extent permitted in the Indenture) shall have been theretofore deposited with the Trustee (whether upon or prior to the maturity or redemption date of any such Bonds); provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee, shall have been filed with the Trustee;

- (c) Bonds in lieu of which other Bonds have been authenticated under the Indenture;

- (d) Bonds for which the conditions enumerated in the Indenture have been met; and

- (e) Bonds owned by the Borrower.

“Person” includes an individual, association, corporation, partnership, limited liability company, joint venture or a government or an agency or a political subdivision thereof.

“Principal Payment Date” or “sinking fund payment date” means, as to a Series of Additional Bonds, the Principal Payment Date or sinking fund payment date established for that Series of Bonds in

the related Supplemental Indenture and, as to the Series 2016 Bonds, means each August 1, commencing August 1, 2017.

“Project Fund” means the fund by that name created pursuant to the Indenture including subaccounts.

“Promissory Note” or “Note(s)” means the Series 2016 Promissory Note and any Additional Promissory Notes.

“Rebate Analyst” means an independent certified public accountant, financial analyst or bond counsel, or any firm of the foregoing, or financial institution, experienced in making the arbitrage and rebate calculations required pursuant to Section 148(f) of the Code, retained by the Borrower to facilitate compliance with Section 148(f) of the Code as it pertains to the Bonds.

“Rebate Fund” means the fund by that name created pursuant to the Tax Agreement.

“Refunding Indebtedness” means any Indebtedness issued for the purpose of refunding any outstanding Long-Term Indebtedness and financing the funding of related reserve funds, costs of issuance and other costs related to such refunding.

“Registered Owner(s)” means the Person or Persons in whose name or names a particular Bond is registered on the registration records maintained for that purpose pursuant to the Indenture.

“Regular Record Date” means the 10th day of the month next preceding each Interest Payment Date (whether or not a Business Day).

“Regulations” means the temporary or final Income Tax Regulations applicable to the Bonds issued pursuant to sections 141 through 150 of the Code or section 103 of the Internal Revenue Code of 1954. Any reference to a section of the Regulations shall also refer to any successor provision to such section hereafter promulgated by the Internal Revenue Service pursuant to sections 141 through 150 of the Code and applicable to the Tax-Exempt Bonds, including the Series 2016 Bonds.

“Revenues” means, to the extent permitted by law, all payments received by the Trustee for the account of the Issuer pursuant to the Loan Agreement and the Indenture.

“Series” means a series of Bonds issued pursuant to the Indenture.

“Series 2016 Bonds” means the Public Finance Authority Educational Facilities Revenue Bonds (Carolina Friends School) Series 2016, issued pursuant to the Indenture, in the original principal amount of \$5,310,000.

“Series 2016 Promissory Note” means the Series 2016 Promissory Note, executed by the Borrower in the aggregate principal amount of \$5,310,000 and made payable to the order of the Issuer.

“Series Debt Service Reserve Fund Requirement” means, (a) for the Series 2016 Bonds, an amount equal to \$302,800, and (b) for any Series of Additional Bonds, an amount, determined at the time of issuance of such Additional Bonds.

“State” means the State of Wisconsin.

“Supplemental Indenture” means any indenture supplemental to the Indenture entered into between the Issuer and the Trustee in accordance with the Indenture.

“S&P” means S&P Global Ratings

“Tax Agreement” means the Tax Regulatory Agreement among the Issuer, the Borrower and the Trustee, dated the date of delivery of the Bonds.

“Tax-Exempt Bonds” means those Bonds the interest on which, in the opinion of Bond Counsel delivered at the time of issuance thereof, is excludable from gross income of the Beneficial Owner thereof for federal income tax purposes, including the Series 2016 Bonds.

“Trust Estate” means the property pledged, assigned and mortgaged to the Trustee pursuant to the granting clauses in the Indenture.

“Trustee” means Wilmington Trust, National Association, a national banking association, and its successors and assigns.

“Trustee’s Annual Fees” means the annual fee of the Trustee payable to the Trustee as Trustee, Registrar and Paying Agent under the Indenture, provided that such fee does not include amounts due, if any, for extraordinary services and expenses of the Trustee.

“Trustee’s Expenses” means the reasonable expenses incurred by the Trustee under the Indenture, including reasonable counsel fees and expenses (including fees and expenses at trial or appellate proceedings), including amounts due, if any, for extraordinary services and expenses of the Trustee.

“Trustee Indemnified Parties” means the Trustee, its officers, directors, employees and agents.

“Underwriter” means George K. Baum & Company.

THE INDENTURE

Security for the Bonds

Under the Indenture, the Issuer grants to U.S. Bank National Association, as Trustee, a security interest in the following:

(a) The rights and interests of the Issuer under the Loan Agreement, as amended from time to time, between the Issuer and the Borrower, except the Issuer’s Unassigned Rights (as defined in the Indenture).

(b) The rights and interests of the Issuer under the Promissory Note (as defined in the Indenture).

(c) All Funds created in the Indenture (other than the Cost of Issuance Fund), except for (i) moneys or obligations deposited with or paid to the Trustee for the payment or redemption of Bonds that are no longer deemed to be Outstanding under the Indenture, (ii) all trust accounts containing all insurance and condemnation proceeds, and (iii) all Revenues payable to the Trustee by or for the account of the Issuer pursuant to the Loan Agreement and the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

Additional Bonds

The Issuer may, but shall have no obligation to, issue Additional Bonds from time to time pursuant to the terms and conditions of the Indenture.

Any Additional Bonds shall, except as otherwise provided in the Indenture, be on a parity with the Series 2016 Bonds and any Additional Bonds theretofore or thereafter issued and outstanding as to the assignment to the Trustee of the Issuer's right, title and interest in the Trust Estate for the payment of debt service on the Bonds.

Before the Trustee shall authenticate and deliver any Additional Bonds, the Trustee shall receive the following items:

(a) Duly executed counterparts of (i) the amendment to the Loan Agreement relating to the project to be financed or refinanced from the proceeds of the Additional Bonds then to be issued and which amendment provides for payments sufficient to pay the debt service charges on the related Additional Bonds, and (ii) the supplement to the Indenture providing for the issuance of and the terms and conditions of the Additional Bonds.

(b) One or more Additional Promissory Notes in an aggregate principal amount equal to the aggregate principal amount of the related Additional Bonds and duly endorsed by the Issuer to the order of the Trustee without recourse or warranty.

(c) A written order of the Issuer as to the delivery of the Additional Bonds, signed by an Issuer Authorized Signatory.

(d) A copy of the resolution duly adopted by the Issuer authorizing (i) the execution and delivery of a bond purchase agreement (if any) with the underwriter (if any) of such Additional Bonds, the amendment to the Loan Agreement and supplement to the Indenture, each relating to the Additional Bonds and (ii) the issuance of the Additional Bonds.

(e) An opinion of Bond Counsel: (i) to the effect that the Additional Bonds to be delivered will be valid and legal special obligations of the Issuer in accordance with their terms and will be secured under the Indenture equally and on a parity (except as otherwise permitted in the Indenture) with all other Bonds at the time outstanding under the Indenture as to the assignment to the Trustee of the Trust Estate; and (ii) the issuance of the Additional Bonds will not result in the interest of any Outstanding Bonds that are Tax-Exempt Bonds becoming included in gross income for federal income tax purposes and that the issuance of the Additional Bonds will not result in the loss of exemption from the registration requirements under the Securities Act of 1933, as amended, of the Tax-Exempt Bonds and the Indenture.

(f) A written opinion of counsel to the Borrower, which counsel shall be reasonably satisfactory to the Issuer, to the effect that the Loan Agreement or the amendment to the Loan Agreement and Additional Promissory Notes have been duly authorized, executed and delivered by the Borrower, and that the Loan Agreement or the amendment to the Loan Agreement and Additional Promissory Notes constitute legal, valid and binding obligations of the Borrower, enforceable in accordance with their respective terms, subject to exceptions reasonably satisfactory to the Issuer and the Trustee for bankruptcy, insolvency and similar laws and the application of equitable principles.

(g) Evidence satisfactory to the Trustee that on delivery of the Additional Bonds then to be delivered there will be or has been paid into or provided for the Debt Service Reserve Fund any amounts required by the Indenture or the supplement to the Indenture relating to such Additional Bonds.

(h) The Trustee has received evidence that the issuance of such Additional Bonds complies with the requirements of the Loan Agreement.

(i) Such other documents, certificates (including certificates issued by public officials) and opinions of counsel as the Issuer, the Underwriter, the Trustee or Bond Counsel may reasonably request.

When (i) the documents listed above have been received by the Trustee, and (ii) the Additional Bonds have been executed and authenticated, the Trustee shall deliver the Additional Bonds to or on the order of the underwriter of such Additional Bonds, but only upon payment to the Trustee of the specified amount (including, without limitation, any accrued interest) set forth in the order to which reference is made in paragraph (c) above.

Establishment of Funds

The Issuer shall establish the following funds, which shall be special trust funds held by the Trustee:

- (a) Bond Fund;
- (b) Debt Service Reserve Fund, including a Series 2016 Bonds Account therein;
- (c) Project Fund; and
- (d) Cost of Issuance Fund.

Bond Fund

With respect to each Series of Additional Bonds, there shall be deposited into the Bond Fund on the date of the Bond Closing of a Series of Additional Bonds, accrued interest on such Series of Additional Bonds and an amount, if any, to pay capitalized interest, all as specified in the Supplemental Indenture related to such Series of Additional Bonds. There shall be deposited into the Bond Fund as and when received (a) all moneys received from the Borrower pursuant to the Loan Agreement, (b) all moneys transferred to the Bond Fund pursuant to the Indenture, (c) all other moneys deposited into the Bond Fund pursuant to the Loan Agreement or the Indenture, and (d) all other moneys received by the Trustee when accompanied by directions from an Authorized Representative of the Borrower, not inconsistent with the Loan Agreement or the Indenture, that such moneys are to be paid into the Bond Fund. There also will be retained in the Bond Fund, interest and other income received on investment of moneys in the Bond Fund as provided in the Indenture.

Except as provided in the Indenture, moneys in the Bond Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Bonds on each Principal Payment Date and each Interest Payment Date, respectively.

The Bond Fund shall be in the custody of the Trustee, and the Issuer authorizes and directs the Trustee to withdraw sufficient funds from the Bond Fund to pay the principal of, premium, if any, and

interest on the Bonds as the same become due and payable, and to withdraw sufficient funds from the Bond Fund for other purposes authorized in the Indenture.

Amounts on deposit in the Bond Fund shall be: (a) held in trust solely for the benefit of the Registered Owners and the Beneficial Owners of the Bonds and (b) applied only in accordance with the provisions of the Indenture. The Borrower shall have no legal, equitable nor reversionary interest in, or right to, such amounts. In the event of any Act of Bankruptcy by the Borrower, the Borrower has, in the Loan Agreement, waived any right it might otherwise have to assert, claim or contend that any portion of the Bond Fund is property of its bankruptcy estate as defined by 11 U.S.C. § 541.

Debt Service Reserve Fund

With respect to each Series of Bonds, there shall be established in the Debt Service Reserve Fund an account related to such Series of Bonds. The amounts in such accounts shall secure only the Series of Bonds related to such account. With respect to the Series 2016 Bonds, there shall be deposited in the account of the Debt Service Reserve Fund related to the Series 2016 Bonds an amount equal to the Series Debt Service Reserve Fund Requirement for the Series 2016 Bonds. Upon the issuance of each Series of Additional Bonds, there shall be deposited into the respective account of the Debt Service Reserve Fund, an amount specified in the related Supplemental Indenture equal to the related Series Debt Service Reserve Fund Requirement. There shall also be deposited into the Debt Service Reserve Fund (a) all moneys transferred to the Debt Service Reserve Fund from the Bond Fund, (b) all other moneys required to be deposited therein pursuant to the Loan Agreement or the Indenture, and (c) all other moneys received by the Trustee when accompanied by directions from an Authorized Representative of the Borrower not inconsistent with the Loan Agreement or the Indenture that such moneys are to be paid into the Debt Service Reserve Fund. In the event amounts on deposit in any account of the Debt Service Reserve Fund are less than the applicable Series Debt Service Reserve Fund Requirement, the Trustee shall notify by written notice, within five (5) Business Days of when the Trustee has knowledge of such deficiency, the Issuer and the Borrower of such deficiency and that such deficiency must be replenished in accordance with the Loan Agreement and the Indenture. Interest and other income received on investments of moneys in the Debt Service Reserve Fund shall be transferred to the Bond Fund so long as the Debt Service Reserve Fund is funded to an amount equal to the Debt Service Reserve Fund Requirement for the Bonds.

Except as provided in the Indenture, moneys in the accounts of the Debt Service Reserve Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Series of Bonds related to such accounts in the event moneys in the Bond Fund are insufficient to make such payments when due, whether on an Interest Payment Date, Principal Payment Date, sinking fund redemption date, maturity date or otherwise. Upon the occurrence of an Event of Default under the Indenture and the exercise by the Trustee of the remedy specified in the Loan Agreement and the Indenture, any moneys in the Debt Service Reserve Fund shall be transferred by the Trustee to the Bond Fund. On the final maturity date of a Series of Bonds, any moneys in the account of the Debt Service Reserve Fund related to such Series of Bonds shall be used to pay the principal of and interest on such Bonds on such final maturity date. In the event of the redemption of a Series of Bonds in whole, any moneys in the account of the Debt Service Reserve Fund related to such Series of Bonds shall be transferred to the Bond Fund and applied to the payment of the principal of and premium, if any, on such Bonds. In the event of a prepayment in whole of amounts due under the Loan Agreement and the defeasance pursuant to the Indenture of all of the Outstanding Bonds of the related Series, any moneys in the account of the Debt Service Reserve Fund related to such Series of Bonds shall be applied to the defeasance of such Series of Bonds. The Trustee shall value the Investment Obligations in the accounts of the Debt Service Reserve Fund semiannually on February 1 and August 1 of each year at the lesser of their market value or cost. If on any valuation date the amount in an account of Debt Service Reserve

Fund is greater than the related Series Debt Service Reserve Fund Requirement, such excess shall be transferred by the Trustee to the Bond Fund in accordance with the Indenture. If on any valuation date the amount in an account of Debt Service Reserve Fund is less than the related Series Debt Service Reserve Fund Requirement and the deficiency is caused solely by a decreased value of the Investment Obligations therein and not due to a transfer to cure a shortfall in the Bond Fund, the Borrower has agreed pursuant to the Loan Agreement that it shall pay to the Trustee, for deposit into the Series Debt Service Reserve Fund, an amount equal to the amount by which the account of Debt Service Reserve Fund amount is less than the Series Debt Service Reserve Fund Requirement with the next monthly deposit following that valuation date. If the amount in the account of the Debt Service Reserve Fund is less than the Series Debt Service Reserve Fund Requirement and the deficiency is caused by a transfer to cure a shortfall in the Bond Fund resulting from the failure of the Borrower to make the payments due on its Promissory Note(s), the Borrower has agreed pursuant to the Loan Agreement to pay to the Trustee all amounts transferred to the Bond Fund to make up for any amounts not paid on the Promissory Note(s) in not more than six substantially equal monthly installments beginning in the month following such deficiency, and provided that no such installment shall be less than \$5,000.

Amounts on deposit in accounts of the Debt Service Reserve Fund shall be: (a) held in trust solely for the benefit of the Registered Owners and the Beneficial Owners of the related Series of Bonds, and (b) applied only in accordance with the provisions of the Indenture. The Borrower has no legal, equitable or reversionary interest in, or right to, such amounts. In the event of any Act of Bankruptcy, the Borrower in no event shall assert, claim or contend that any portion of the Debt Service Reserve Fund is property of its bankruptcy estate as defined by 11 U.S.C. § 541.

The Debt Service Reserve Fund shall be in the custody of the Trustee but in the name of the Issuer, and the Issuer authorizes and directs the Trustee to withdraw sufficient funds from the applicable accounts of the Debt Service Reserve Fund to pay the principal of, premium, if any, and interest on the Bonds and for the purposes described in the Indenture. In the event there shall be a deficiency in the Bond Fund on any payment date for the Bonds because of a default by a Borrower under the Loan Agreement, the Trustee shall promptly make up such deficiency from the Debt Service Reserve Fund.

Project Fund

With respect to the Series 2016 Bonds, the balance of the proceeds of the issuance and delivery of the Series 2016 Bonds remaining after the other deposits of such proceeds required by the Indenture, shall be deposited in the Project Fund. With respect to each Series of Additional Bonds, the amount of proceeds to be deposited in the related subaccount of the Project Fund shall be provided for in the related Supplemental Indenture. The Trustee is authorized and directed to make each disbursement required by the provisions of the Loan Agreement and the related Supplemental Indenture and to issue its checks or wire transfers therefor against the related subaccount of the Project Fund. The Trustee shall keep and maintain adequate records pertaining to the Project Fund and all disbursements therefrom and shall provide monthly statements to the Borrower.

Any balance remaining in the related subaccount of the Project Fund on the date such certificate is received shall be used in accordance with the Loan Agreement.

The Project Fund shall be in the custody of the Trustee but in the name of the Issuer, and the Issuer authorizes and directs the Trustee to withdraw sufficient funds from the appropriate subaccount of the Project Fund for Costs of the Project as requisitioned by the Borrower.

Cost of Issuance Fund

With respect to the Series 2016 Bonds, there shall be deposited into the Cost of Issuance Fund on the Bond Closing for the Series 2016 Bonds the amounts set forth in the Indenture. With respect to each Series of Additional Bonds, there shall be deposited into the Cost of Issuance Fund that amount as provided in the related Supplemental Indenture. Such moneys shall be expended to pay issuance expenses in accordance with a written direction from the Borrower.

The Trustee shall keep and maintain adequate records pertaining to the Cost of Issuance Fund and all payments therefrom, which shall be open to inspection by the Borrower, the Issuer or their duly authorized agents during normal business hours of the Trustee.

With respect to the Series 2016 Bonds, any amounts remaining on deposit in the Cost of Issuance Fund 90 days after their delivery shall be transferred to the related subaccount of the Project Fund and disbursed pursuant to the Indenture. With respect to each Series of Additional Bonds, any amounts remaining on deposit in the Cost of Issuance Fund on the date 90 days after the Bond Closing of the related Series of Bonds shall be transferred to the related subaccount of the Project Fund and disbursed pursuant to the Indenture.

The Cost of Issuance Fund shall be in the custody of the Trustee but in the name of the Issuer and the Issuer authorizes and directs the Trustee to withdraw sufficient funds from the Cost of Issuance Fund for the purposes set forth in the Loan Agreement and the Indenture.

Moneys to be Held in Trust

All moneys required to be deposited with or paid to the Trustee under any provision of the Indenture shall be held by the Trustee in trust for the purposes specified in the Indenture, and, except for moneys deposited with or paid to the Trustee by or for the account of the Issuer pursuant to the Loan Agreement and the Indenture or for the payment or redemption of specific Bonds and moneys held by the Trustee in the Cost of Issuance Fund, and in the separate trust accounts pursuant to the Trust Indenture shall, while held by the Trustee, constitute part of the Trust Estate and be subject to the lien in the Indenture.

Repayment to the Borrower from the Funds

Any amounts remaining in the Funds after payment in full of the Bonds (or making provision for such payment), the fees and expenses of the Trustee, the Issuer's Annual Fee and all other amounts required to be paid under the Indenture and the Loan Agreement to the Issuer and the Trustee and others (including payments into the Rebate Fund and to the United States Treasury, and payments in respect of the Issuer's Unassigned Rights) shall be paid to the Borrower upon the expiration of the term of the Indenture.

Investment of Funds

Moneys in all Funds under the Indenture shall be invested and reinvested by the Trustee in Investment Obligations, at the written direction of the Authorized Representative of the Borrower. If no such direction is received, the Trustee shall hold such amounts in cash. The Borrower covenants that at no time shall any funds constituting gross proceeds of the Tax-Exempt Bonds be used in any manner to cause or result in a prohibited payment under applicable regulations pertaining to, or in any other fashion as would constitute failure of compliance with, Section 148 of the Code. Investments of moneys in the

Bond Fund shall mature or be redeemable without penalty at the option of the Trustee at the times and in the amounts necessary to provide moneys to pay the principal of, premium, if any, and interest on the Bonds as they become due at stated maturity or by redemption. Each investment of moneys in funds other than the Bond Fund shall mature or be redeemable without penalty at such time as may be necessary to make payments from such fund.

Upon receipt of written directions from the Authorized Representative of the Borrower with respect thereto, and any restrictions contained in the Tax Agreement, the Trustee shall sell those investments and reinvest the proceeds therefrom in Investment Obligations maturing or redeemable as aforesaid. Any of those investments may be purchased from or sold to the Trustee or any bank, trust company or savings and loan association affiliated with the Trustee. The Trustee shall sell or redeem investments credited to the Bond Fund to produce sufficient moneys applicable under the Indenture to and at the times required for the purposes of paying the principal of, premium and interest on the Bonds when due as aforesaid, and shall do so without necessity for any order on behalf of the Issuer and without restriction by reason of any order. An investment made from moneys credited to the Project Fund, the Bond Fund or Cost of Issuance Fund shall constitute part of that respective fund. Proceeds of the sale of and income on investments in the funds shall be credited to such funds. For purposes of the Indenture, the Investment Obligations shall be valued by the Trustee on each February 1 and August 1 at face amount or market value, whichever is less, except as otherwise provided in the Indenture. The Trustee shall not be responsible for any resulting losses.

Discharge of Indenture

If the Bonds are paid in accordance with their terms (or payment of the Bonds is provided for in the manner set forth in the following paragraph), together with all other sums payable under the Indenture, all amounts payable to the Issuer and the Trustee under the Loan Agreement and all amounts payable to the United States Treasury pursuant to Section 148 of Code, or provision made for the payment of the same, then the Indenture and the Trust Estate and all rights granted under the Indenture will thereupon cease, terminate and become void and be discharged and satisfied (except for those provisions which expressly provide for their survival). Also if all Outstanding Bonds are purchased by the Borrower and delivered to the Trustee for cancellation, and all other sums payable under the Indenture, all amounts payable to the Issuer and the Trustee under the Loan Agreement, and all amounts payable to the United States Treasury pursuant to Section 148 of the Code paid, or provision made for the payment of the same, then the Indenture and the Trust Estate and all rights granted under the Indenture will thereupon cease, terminate and become void and be discharged and satisfied (except for those provisions which expressly provide for their survival). In such events, upon the request of the Borrower, the Trustee shall assign and transfer to the Borrower all property then held by the Trustee under the Indenture with respect to the Borrower and shall execute such documents as may be reasonably required by the Borrower and shall turn over to the Borrower the appropriate amount of any surplus in any Fund pursuant to the Indenture.

Payment of any Outstanding Bond shall, prior to the maturity or redemption date thereof, be deemed to have been provided for within the meaning and with the effect expressed in the Indenture if: (i) in the case that said Bond is to be redeemed on any date prior to its maturity, the Borrower shall have given to the Trustee in form satisfactory to it irrevocable instructions to give, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bond on said redemption date, such notice to be given in accordance with the provisions of the Indenture; (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations which shall not contain provisions permitting the redemption thereof at the option of the issuer, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient to pay when due the principal of and premium, if any, and interest due and to become due on

said Bond on and prior to the redemption date or maturity date thereof, as the case may be; (iii) there shall have been delivered to the Trustee a certificate from a firm of certified public accountants certifying as to the sufficiency of the deposit made pursuant to the preceding clause (ii); (iv) there shall have been delivered to the Trustee an opinion of Bond Counsel satisfactory to the Trustee and the Issuer that such payment does not adversely affect the exclusion from gross income of interest on the Tax-Exempt Bonds; and (v) in the event said Bond is not by its terms subject to redemption within the next 45 days, the Borrower shall have given the Trustee in form satisfactory to it irrevocable instructions to give, as soon as practicable in the same manner as the notice of redemption is given pursuant to the Indenture, a notice to the Registered Owner of such Bond that the deposit required by (ii) above has been made with the Trustee and that payment of said Bond has been provided for in accordance with the Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of and premium, if any, and interest on said Bond. Neither such securities nor moneys deposited with the Trustee pursuant to the Indenture or principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and premium, if any, and interest on said Bond; provided any cash received from such principal or interest payments on such securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in securities of the type described above maturing at times and in amounts sufficient to pay when due the principal of and premium, if any, and interest to become due on said Bond on or prior to such redemption date or maturity date thereof, as the case may be. At such time as payment of a Bond has been provided for as aforesaid, such Bond shall no longer be secured by or entitled to the benefits of the Indenture, except for the purpose of any payment from such moneys or securities deposited with the Trustee.

Notwithstanding anything contained in the Indenture to the contrary, provision shall not be made for the payment of any Bonds if such provision would constitute an advance refunding under the Code, unless simultaneously with such provision for payment, the Borrower delivers to the Issuer and the Trustee an opinion of nationally recognized bond counsel acceptable to the Issuer and the Trustee to the effect that such provision will not adversely affect the exclusion from gross income of the interest on the Tax-Exempt Bonds.

Notwithstanding the payment in full or defeasance of the Bonds, the discharge of the Indenture, and the termination or expiration of the Loan Agreement, all provisions in the Indenture concerning (i) the tax-exempt status of the Tax-Exempt Bonds, (ii) the interpretation the Indenture, (iii) the governing law, (iv) jurisdiction and the forum for resolving disputes, (v) the Issuer's right to rely on written representations of others contained in the Indenture or in any other document or instrument issued or entered into in respect of the Bonds, regardless of whether the Issuer is a party thereto, (vi) the indemnity of the Issuer and the Issuer Indemnified Parties from liability, (vii) the Issuer's and the Issuer Indemnified Parties' lack of pecuniary liability, (ix) the indemnity of the Trustee Indemnified Parties, (x) the rights, powers and duties of the Trustee as may be necessary and convenient for the payment of amounts due or to become due on the Bonds and the registration, transfer, exchange and replacement of Bonds, and (xi) any other provision of the Indenture that expressly provides for its survival, shall survive and remain in full force and effect.

Events of Default

Each of the following is defined as and shall be deemed an "Event of Default" under the Indenture:

- (a) Failure in the payment by the Issuer of the principal of or premium, if any, on any Bond when the same shall become due and payable, whether at the stated maturity thereof, on a sinking fund payment date or upon proceedings for redemption.

(b) Failure in the payment by the Issuer of any installment of interest on any Bond when the same shall become due and payable.

(c) Failure by the Issuer to observe or perform any other covenant, agreement, contract or other provision of the Bonds or the Indenture (other than as referred to in (a) or (b) above) and such default shall continue for a period of 30 days after written notice to the Issuer and the Borrower by the Trustee specifying such default and requiring the same to be remedied, provided no Event of Default will be deemed to have occurred so long as a course of action adequate to remedy such failure shall have been commenced within such 30-day period and shall thereafter be diligently prosecuted to completion and the failure shall be remedied thereby within 120 days of such notification. The Borrower shall deliver a written report to the Trustee at least once every 30 days setting forth the status of all attempts to cure such default(s).

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

Upon the occurrence of an Event of Default under the Indenture, the Trustee shall promptly notify the Issuer and the Borrower by electronic mail, confirmed by overnight mail or courier, of such occurrence. Each notification of the occurrence of an Event of Default shall set forth the specific nature of the Event of Default or Events of Default.

Remedies for Events of Default

Upon the occurrence of an Event of Default with respect to Bonds issued under the Indenture, the Trustee shall have the following rights and remedies:

(a) Acceleration. The Trustee (i) may by notice in writing given to the Issuer and the Borrower, or (i) shall, upon the written request of the Beneficial Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, declare the principal amount of all Bonds then Outstanding and the interest accrued thereon to be immediately due and payable and said principal and interest shall thereupon become immediately due and payable. Upon any declaration of acceleration under the Indenture, the Issuer and the Trustee shall immediately declare all Loan Payments under the Loan Agreement to be immediately due and payable, as provided in the Loan Agreement.

(b) Receivership. Upon the filing of a bill in equity or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Registered Owners, the Trustee shall be entitled as a matter of right to the appointment of a receiver or receivers, with respect to the Borrower, of the rents, revenues, income, products and profits related to the Borrower and the Campus, pending such proceedings, but, notwithstanding the appointment of any receiver, trustee or other custodian, the Trustee shall be entitled to the possession and control of any cash, securities or other instruments at the time held by, or payable or deliverable under the provisions of the Indenture to, the Trustee.

(c) Suit for Judgment on the Bonds. The Trustee shall be entitled to sue for and recover judgment, either before or after or during the pendency of any proceedings for the enforcement of the lien of the Indenture, for the enforcement of any of its rights, or the rights of the Beneficial Owners, but any such judgment against the Issuer shall be enforceable only against the Trust Estate. No recovery of any judgment by the Trustee shall in any manner or to any extent affect the lien of the Indenture or any rights, powers or remedies of the Trustee under the Indenture, or any lien, rights, powers or remedies of the Beneficial Owners of the Bonds, but such

lien, rights, powers and remedies of the Trustee and of the Beneficial Owners shall continue unimpaired as before.

No right or remedy is intended to be exclusive of any other right or remedy, but each and every such right or remedy shall be cumulative and in addition to any other right or remedy given under the Indenture or now or hereafter existing at law or in equity or by statute.

If any Event of Default under the Indenture shall have occurred, the Beneficial Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, shall direct the Trustee as to the preferred remedy of such Beneficial Owners. The Trustee, after being indemnified or receiving other assurances as provided in the Indenture, shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture as directed by such Beneficial Owners of such Bonds.

Direction of Remedies

Anything in the Indenture to the contrary notwithstanding, the Beneficial Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, at any time, to the extent permitted by law, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, 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 or remedies under the Indenture, provided that such direction shall not be otherwise than in accordance with the provisions of the Indenture. The Trustee shall not be required to act on any direction given to it pursuant to the Indenture unless indemnified or receiving other assurances as provided in the Indenture.

Rights and Remedies of Beneficial Owners

No Beneficial Owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust in the Indenture or for the appointment of a receiver or any other remedy under the Indenture, unless a default has occurred of which the Trustee has been notified as provided in the Indenture, or of which by the Indenture it is deemed to have notice, nor unless such default shall have become an Event of Default and the Beneficial Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request to the Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, or unless they have also offered to the Trustee indemnity or other assurances as provided in the Indenture or unless the Trustee shall thereafter fail or refuse to exercise within a reasonable period of time (not to exceed 30 days) the powers in the Indenture before granted, or to institute such action, suit or proceeding in its own name; and such notification, request, and offer of indemnity or other assurances are declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of the Indenture, and to any action or cause of action for the enforcement of the Indenture, or for the appointment of a receiver or for any other remedy; it being understood and intended that no one or more Beneficial Owners of the Bonds shall have the right in any manner whatsoever to affect, disturb or prejudice the lien of the Indenture by his, her or their action 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 shall be instituted, had, and maintained in the manner provided in the Indenture and for the equal benefit of the Beneficial Owners of the Bonds then Outstanding. Nothing in the Indenture contained shall, however, affect or impair the right of any Beneficial Owner of Bonds to enforce the payment, by the institution of any suit, action or proceeding in equity or at law, of the principal of, premium, if any or interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal of, premium, if any, and interest on each of the Bonds to the respective

Beneficial Owners of the Bonds at the time and place, from the source and in the manner provided in the Indenture and in the Bonds expressed.

Application of Moneys

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys, including the costs and expenses of the Registered Owners and the expenses, liabilities and advances incurred or made by the Trustee, and after payment of all sums due to the Trustee and to the Issuer (including payments of fees, costs and expenses of Issuer and the Issuers Indemnified Parties and any other payments due them in respect of the Issuer's Unassigned Rights (including, without limitation, indemnification payments); provided, that payment of the amounts due to Issuer or the Issuer Indemnified Parties under the Indenture shall not absolve the Borrower from liability therefor (except to the extent of the amounts received from the Trustee)) under the Indenture and the Loan Agreement, as applicable, be held or deposited into the Bond Fund during the continuance of an Event of Default and shall be applied as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST, to the payment to the Persons entitled thereto of all of the interest then due on the Bonds, in the order of the maturity 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 of and premium, if any, on any of the Bonds which shall have become due (other than Bonds 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 and, if the amount available shall not be sufficient to pay in full Bonds 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 due or shall have been declared due and payable, all such moneys shall be applied first to the payment of the interest then due and unpaid upon all of the Bonds, and then to the principal then due and payable on the Bonds without preference or priority 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 privilege.

(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 provisions of the Indenture then, subject to the provisions of above, in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the above provisions.

Whenever moneys are to be applied pursuant to the provisions described above, 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. The Trustee shall give such notice as it may deem appropriate of the deposit of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Registered Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all of the Bonds, the premium, if any, and interest thereon have been paid under the provisions of the Indenture and all Trustee's Annual Fees, all Trustee's Expenses, and the Issuer's Annual Fee and all other amounts to be paid to the Issuer or the Trustee or the United States Treasury under the Indenture or the Loan Agreement have been paid, or provision made for the payment thereof in accordance with the Indenture, any balance remaining in the Funds shall be applied as provided in the Indenture.

Trustee May Enforce Rights Without Bonds

All rights of action and claims under the Indenture (except for the Issuer's Unassigned Rights) or any of the Bonds Outstanding may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or proceedings relative thereto; and any suit or proceeding instituted by the Trustee shall be brought in its name as Trustee, without the necessity of joining as plaintiffs or defendants any Registered Owners of the Bonds.

Proofs of Claim

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Issuer or the Borrower or any other obligor upon the Bonds or the property of the Issuer, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable, from prepayment on the Promissory Notes, as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Issuer and/or the Borrower for the payment of overdue principal or interest) shall be entitled and empowered, by intervention of such proceeding or otherwise,

(a) to file and prove a claim for the whole amount of principal, premium, if any, and interest owing and unpaid in respect of the Bonds then Outstanding and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Registered Owners allowed in such judicial proceeding; and to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

(b) and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is authorized by each Registered Owner to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to the Registered Owners, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agent and counsel.

So long as Bonds are Outstanding the Trustee is appointed, and the successive respective Registered Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee, the true and lawful attorney in fact of the respective Registered Owners of the

Bonds, with authority to make or file, in the respective names of the Registered Owners of the Bonds or on behalf of all Registered Owners of the Bonds, as a class, any proof of debt, amendment to proof of debt, petition or other documents and to execute any other papers and documents and to do and perform any and all acts and things for and on behalf of all Registered Owners of the Bonds as a class, as may be necessary or advisable in the opinion of the Trustee, in order to have the respective claim of the Registered Owners of the Bonds against the Issuer, the Borrower or any other obligor allowed in receivership, insolvency, liquidation, bankruptcy or other proceeding, to which the Issuer, the Borrower or any other obligor, as the case may be, shall be a party. The Trustee shall have full power of substitution and delegation in respect of any such powers.

Delay or Omission No Waiver

No delay or omission of the Trustee or of any Registered Owner to exercise any right or power accruing upon any default shall exhaust or impair any such right or power or shall be construed to be a waiver of any such default, or acquiescence therein; and every power and remedy given by the Indenture may be exercised from time to time and as often as may be deemed expedient.

No Waiver of One Default to Affect Another

No waiver of any default under the Indenture, whether by the Trustee, the Beneficial Owners or the Registered Owners, shall extend to or affect any subsequent or any other then existing default or shall impair any rights or remedies consequent thereon.

Discontinuance of Proceedings on Default; Position of Parties Restored

In case the Issuer, the Trustee, the Beneficial Owners or the Registered Owners shall have proceeded to enforce any rights under the Indenture and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee or the Registered Owners, then and in every such case the Issuer, the Trustee, the Beneficial Owners and the Registered Owners shall be restored to their former position and rights under the Indenture and with respect to the Trust Estate, and all rights, remedies, and powers of the Issuer, the Trustee, the Beneficial Owners and the Registered Owners shall continue as if no such proceedings had been taken.

Waivers of Events of Default

The Trustee may in its discretion waive any Event of Default under the Indenture and its consequences and rescind any declaration of acceleration of maturity of principal of and interest on the Bonds, and shall be required to do so upon the written request of the Beneficial Owners of a majority in aggregate principal amount of the Bonds then Outstanding; provided, however, that there shall not be waived (i) any Event of Default in the payment of the principal of or premium, if any, on any Outstanding Bonds at the date of maturity or redemption thereof or any default in the payment when due of the interest on any such Bonds, unless prior to such waiver or rescission, all arrears of interest or all arrears of payments of the principal and premium, if any, and all expenses of the Trustee, and all amounts to be paid to the Issuer and the Trustee under the Indenture and under the Loan Agreement, in connection with such default shall have been paid or provided for, (ii) any default in the payment of amounts set forth in the Loan Agreement, or (iii) any default or Event of Default in respect of the Issuer's Unassigned Rights, which may only be waived with the Issuer's written consent. In case of any such waiver or rescission, or in case any proceedings 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 Issuer, the Trustee and the Beneficial Owners shall be restored to their former positions and rights under the Indenture

respectively, but no such waiver or rescission shall extend to or affect any subsequent or other default, or impair any rights or remedies consequent thereon.

No Obligation to Enforce Assigned Rights

Notwithstanding anything to the contrary in the Indenture or the Loan Agreement, the Issuer shall have no obligation to and instead the Trustee, in accordance with the Indenture or Loan Agreement, shall have the right, without any direction from or action by the Issuer, to take any and all steps, actions and proceedings, to enforce any or all rights of the Issuer under the Indenture or the Loan Agreement (other than the Issuer's Unassigned Rights), including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the Borrower under the Loan Agreement.

No Impairment of Ability to Enforce Issuer's Unassigned Rights

No provision of the Indenture or the Loan Agreement shall be deemed or construed as limiting, affecting or impairing in any way the Issuer's or any Issuer Indemnified Party's right to enforce the Issuer's Unassigned Rights, notwithstanding the existence or continuance of a default or Event of Default (including, without limitation, a payment default), or any action based thereon or occasioned by an Event of Default or an alleged Event of Default, and notwithstanding any waiver or forbearance by the Trustee, the Registered Owners or the Beneficial Owners of any default or Event of Default under the Indenture or thereunder. Any default or Event of Default in respect of the Issuer's Unassigned Rights may only be waived with the Issuer's written consent.

The Trustee

The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture. In case an Event of Default has occurred (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under similar circumstances.

The Trustee may execute any of the trusts under the Indenture or powers under the Indenture and perform any of its duties by or through attorneys, agents, receivers or employees and shall not be answerable for same if appointed with due care and will be entitled to act upon an opinion of counsel concerning all matters of the trust in the Indenture and its duties under the Indenture, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts in the Indenture. The Trustee may act upon an opinion of counsel and shall not be responsible for any loss or damage resulting from any action or nonaction taken by or omitted to be taken in good faith in reliance upon such opinion of counsel.

The Trustee shall not be responsible for any recital under the Indenture or in the Bonds (except in respect to the certificate of authentication of the Trustee endorsed on the Bonds), or for insuring the Campus or collecting any insurance moneys or for the validity of the execution by the Issuer of the Indenture or of any supplements to the Indenture or instruments of further assurance, or for the sufficiency of the security for the Bonds issued under the Indenture or intended to be secured thereby, or for the value of or title to the Campus, and the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the Issuer, or on the part of the Borrower, except as set forth in the Indenture; but the Trustee may require of the Borrower full information and advice as to the performance of the covenants, conditions, and agreements as to the

condition of the Campus contained in the Indenture or in the Loan Agreement. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the Indenture.

The Trustee shall not be accountable for the use of any Bonds authenticated or delivered under the Indenture. The Trustee may become the Registered Owner of the Bonds with the same rights which it would have if not Trustee.

The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to the Indenture upon the request or the consent of the Issuer or any person who at the time of making such request or giving such consent is the Registered Owner of any Bonds shall be conclusive and binding upon all future owners of the same Bond and upon Bonds issued in place thereof.

As to the existence or nonexistence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate signed on behalf of the Issuer by an Issuer Authorized Signatory or on behalf of the Borrower by an Authorized Representative of the Borrower or such other person as may be designated for such purpose by the Issuer or Borrower as sufficient evidence of the facts therein contained, and prior to the occurrence of a default of which the Trustee has been notified as provided in the Indenture, or of which by said subsection it is deemed to have notice, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same.

The permissive rights of the Trustee to do things enumerated in the Indenture shall not be construed as a duty, and the Trustee shall not be answerable for other than its negligence or willful misconduct and shall not be answerable for any negligent act of its attorneys, agents or receivers which have been selected by the Trustee with due care.

The Trustee shall not be required to take notice or be deemed to have notice of any default under the Indenture except failure by the Borrower to cause to be made any of the payments to the Trustee required to be made under the Indenture, under the Loan Agreement, or the failure by the Issuer or the Borrower to file with it any of the periodic documentation required, or to deposit with it the insurance report required under the Indenture, under the Loan Agreement, unless an officer in the corporate trust department of the Trustee has actual notice thereof or unless the Trustee shall be specifically notified in writing of such default by the Borrower, the Issuer or a Registered Owner and all notices or other instruments required by the Indenture to be delivered to the Trustee, must, in order to be effective, be delivered at the address of the Trustee provided for in the Indenture, and, in the absence of such notice so delivered, the Trustee may conclusively assume that there is no default except as aforesaid.

All moneys received by the Trustee shall, until used or applied or invested as provided in the Indenture, be held in trust in the manner and for the purposes for which they were received but need not be segregated from other funds except to the extent required by the Indenture or law. The Trustee shall not be under any liability for interest on any moneys received under the Indenture except such as may be agreed upon.

At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, shall have the right, but shall not be required, to inspect any and all of the Trust Estate, including all books, papers and records of the Issuer or the Borrower pertaining to the Borrower, the Campus and the Bonds.

The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

Notwithstanding anything in the Indenture contained, the Trustee shall have the right, but shall not be required, to demand in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property or any action whatsoever within the purview of the Indenture, any showings, certificates, opinions, appraisals or other information or corporate action or evidence thereof, in addition to that by the terms required in the Indenture, as a condition of such action by the Trustee deemed desirable for the purpose of establishing the right of the Issuer or the Borrower to the authentication of any Bonds, the withdrawal of any cash, the release of any property, or the taking of any other action by the Trustee.

Before taking any action under the Indenture including but not limited to the exercise of remedies, the Trustee may require that reasonable indemnity or other assurances be furnished to it for the reimbursement of all expenses which it may incur and to protect it against all risk and liability by reason of any action so taken, including without limitation any and all environmental liability, and except only any liability which may result from its negligence or willful misconduct. The Trustee may take action without requiring such indemnification or other assurances and in such event, the Trustee shall be entitled to indemnification by the Borrower pursuant to the Loan Agreement and to reimbursement of its fees and expenses pursuant to the Indenture.

The Trustee shall transfer any Additional Payments that may come into its possession promptly upon receipt thereof from the Borrower to Issuer at the address specified in the Indenture for notice to Issuer or as otherwise directed by Issuer; except that payments of the Annual Fee shall be remitted to Issuer at the times specified in the Loan Agreement.

The Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or other disclosure prepared or distributed in connection with the Bonds. The Trustee will take all necessary actions including filing continuation statements, to preserve the Lien and security interest created by the Promissory Note.

The present or any future Trustee may resign by giving to the Issuer, the Borrower and the Registered Owners 60 days' notice of such resignation. Such resignation shall take effect immediately on the appointment of a successor. The present or any future Trustee may be removed at any time by an instrument or concurrent instruments in writing signed by the Issuer or by the Registered Owners of a majority in aggregate principal amount of the Bonds and such removal shall take effect immediately on the appointment of a successor. The Trustee may also be removed at any time for any breach of the trust set forth in the Indenture.

In case the present or any future Trustee shall at any time resign or be removed or otherwise become incapable of acting, a successor may be appointed by the Registered Owners of a majority in aggregate principal amount of the Bonds Outstanding by an instrument or concurrent instruments signed by such Registered Owners, or their attorneys-in-fact duly appointed; provided that the Borrower if not then in default under the Loan Agreement, with the consent of the Issuer, may appoint a successor until ratified, or a new successor shall be appointed, by the Registered Owners as authorized by the Indenture. The Borrower, upon making such appointment, shall forthwith give notice thereof to the Registered Owners and the Issuer, which notice may be given concurrently with the notice of resignation given by any resigning Trustee. Any successor so appointed by the Borrower shall immediately and without further act be superseded by a successor appointed in the manner above provided by the Registered Owners of a majority in aggregate principal amount of the Bonds then Outstanding. In the event that the Borrower or the Registered Owners fail to appoint a successor (within 60 days, in the case of a

resignation), the Trustee may petition a court of competent jurisdiction for appointment of a successor trustee.

Every successor trustee shall always be a bank or trust company in good standing, be qualified to act under the Indenture, be subject to examination by a federal or state authority and have capital and surplus of not less than \$75,000,000. Any successor appointed under the Indenture shall execute, acknowledge and deliver to the Issuer an instrument accepting such appointment, and thereupon such successor shall, without any further act, deed or conveyance, become vested with all the estates, properties, rights, powers and trusts of its predecessor in the trust under the Indenture with like effect as if originally named as Trustee in the Indenture; but the Trustee retiring shall, nevertheless, on the written demand of its successor, execute and deliver an instrument conveying and transferring to such successor, upon the trusts expressed in the Indenture, all the estates, properties, rights, powers and trusts of the predecessor (subject, however, to the terms and conditions set forth in the Indenture, including, without limitation, the right of the predecessor Trustee to be paid and reimbursed in full for its fees and expenses pursuant to the Indenture and to be indemnified pursuant to the Loan Agreement), and shall duly assign, transfer and deliver to the successor all properties and moneys held by it under the Indenture. Should any instrument in writing from the Issuer be reasonably required by any successor for such vesting and confirming, the Issuer shall execute, acknowledge and deliver the said deeds, conveyances and instruments on the request of such successor, subject to Section 4.06(b).

Supplemental Indentures Not Requiring Consent of Registered Owners

At the request of the Borrower, the Trustee or the Issuer may (but shall not be obligated to), without the consent of, or notice to, the Registered Owners, enter into such supplemental indentures (which supplemental indentures shall thereafter form a part of the Indenture) for any one or more or all of the following purposes:

- (a) To add to the covenants and agreements of the Issuer contained in the Indenture for the protection or benefit of the Registered Owners, other covenants and agreements thereafter to be observed for the protection or benefit of the Registered Owners, or to surrender or limit any right or power reserved or conferred upon the Issuer;
- (b) To cure any ambiguity, or to cure, correct or supplement any defect or inconsistent provision contained in the Indenture, or to make any provisions with respect to matters arising under the Indenture or for any other purpose if such provisions are necessary or desirable and do not materially adversely affect the interests of the Registered Owners of the Bonds;
- (c) To subject to the lien of the Indenture additional revenues, properties or collateral;
- (d) To modify, alter, amend or supplement the Indenture in such a manner as shall permit the qualification under the Trust Indenture Act of 1939, as from time to time amended; or
- (e) To provide for the issuance of Additional Bonds, unless consent is required pursuant to the Indenture.

Supplemental Indentures Requiring Consent of Registered Owners

Exclusive of supplemental indentures covered by the Indenture, the Registered Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from

time to time, to consent to and approve the execution by the Issuer and the Trustee of such indenture or indentures supplemental to the 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.

If at any time the Issuer shall request the Trustee to enter into such supplemental indenture for any of the purposes set forth in the Indenture, the Trustee shall, upon being reasonably indemnified by the Borrower (to the extent reasonably required by the Trustee) with respect to expenses, mail by first-class mail notice of the proposed execution of such supplemental indenture to the Registered Owners of the Bonds at their addresses as the same shall last appear upon the registration records. The Borrower shall be responsible for such expenses. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the designated corporate trust office of the Trustee for inspection by all Registered Owners. If, within 60 days following the mailing of such notice, the Registered Owners of the requisite principal amount of the Bonds Outstanding at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as provided in the Indenture, no Registered Owner of any Bond shall have any right 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 Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof.

The Trustee may, in its discretion, choose not to enter into a supplemental indenture if it adversely affects the Trustee's rights and adds burdens thereto.

Execution of Supplemental Indentures

The Trustee is authorized to join with the Issuer in the execution of any such supplemental indenture and to make further agreements and stipulations which may be contained therein, but the Trustee shall not be obligated to enter into any such supplemental indenture which materially adversely affects its rights, duties, or immunities under the Indenture. The Trustee shall require delivery of an opinion of Bond Counsel acceptable to the Trustee to the effect that each such supplemental indenture (i) has been validly authorized and duly executed by the Issuer and is enforceable against the Issuer in accordance with its terms, (ii) will not adversely affect the qualification of the Bonds as obligations which may be issued pursuant to the Act, (iii) will not adversely affect the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes and (iv) is permitted pursuant to the terms of the Indenture. Any supplemental indenture executed in accordance with the provisions of the Indenture shall thereafter form a part of the Indenture and all the terms and conditions contained in any such supplemental indenture as to any provision authorized to be contained therein shall be deemed to be part of the Indenture for any and all purposes. In case of the execution and delivery of any supplemental indenture, express reference may be made thereto in the text of the Bonds issued thereafter, if any.

Amendments, etc., of the Loan Agreement Not Requiring Consent of Registered Owners

The Issuer and the Trustee may (but shall not be obligated to), without the consent of or notice to the Registered Owners, consent to any amendment, change or modification of the Loan Agreement as may be required (a) by the provisions of the Loan Agreement or the Indenture, (b) for the purpose of curing any ambiguity or formal defect or omission, (c) to conform the Loan Agreement to any Supplemental Indenture, or (d) in connection with any other change therein which is not to the adverse prejudice of the Trustee nor materially adversely affects the interests of the Registered Owners of the Bonds.

Amendments, etc., of the Loan Agreement Requiring Consent of Registered Owners

Except for the amendments, changes or modifications referred to in the previous paragraph, neither the Issuer nor the Trustee shall consent to any other amendment, change or modification of the Loan Agreement without the giving of notice to and receiving the written approval or consent of the Registered Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, subject to the same limitations set forth in the Indenture. Such notice and consent shall be given and procured as provided in the Indenture. If at any time the Issuer and the Borrower shall request the consent of the Trustee to any such proposed amendment, change or modification of the Loan Agreement, the Trustee shall, upon being reasonably indemnified by the Borrower with respect to expenses, cause notice of such proposed amendment, change or modification to be given in the same manner as provided in the Indenture. 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 designated office of the Trustee for inspection by all Registered Owners. If, within 60 days following the mailing of such notice, the Registered Owners of the requisite principal amount of the Bonds Outstanding at the time of the execution of any such amendment, change or modification shall have consented to and approved the execution of the agreement reflecting such amendment, change or modification thereof as provided in the Indenture, no Registered Owner of any Bond shall have any right 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 Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof.

THE LOAN AGREEMENT

The Loan

The issuer has agreed, upon the terms and conditions in the Loan Agreement to lend to the Borrower, pursuant to the Loan Agreement, the proceeds received by the issuer from the sale of the Bonds.

Term

The Loan Agreement shall remain in full force and effect from the date of delivery until such time as all of the payments on the Series 2016 Promissory Note shall have been fully paid or provision is made for such payment pursuant to the Loan Agreement and the Indenture and all reasonable and necessary fees and expenses of the Trustee accrued and to accrue through final payment of the Series 2016 Promissory Note, all fees and expenses of the Issuer accrued and to accrue through final payment of the Series 2016 Promissory Note and all other liabilities of the Borrower accrued and to accrue through final payment of the Series 2016 Promissory Note under the Loan Agreement and the Indenture have been paid or provision is made for such payments pursuant to the Loan Agreement and the Indenture; provided, however, notwithstanding any other provision of the Loan Agreement, but nevertheless subject to the Loan Agreement, (i) the indemnification provisions of the Loan Agreement, the agreements contained in the Loan Agreement, and any other agreements contained in the Loan Agreement which expressly provide for their survival shall survive the termination of the Loan Agreement; (b) all agreements, representations and certifications by the Borrower as to the exclusion from gross income of interest on the Series 2016 Bonds shall survive termination of the term of the Loan Agreement until the expiration of statutes of limitation applicable to the liability of the Registered Owners of the Series 2016 Bonds for federal and state income taxes with respect to interest on the Series 2016 Bonds; and (c) upon the defeasance of the Indenture, all such indemnification provisions shall be enforceable by the Issuer, the Issuer Indemnified Parties and the Trustee Indemnified Parties, and all such agreements, representations

and certifications regarding the exclusion from gross income of the interest on the Series 2016 Bonds shall be enforceable by the Registered Owners of the Series 2016 Bonds, directly against the Borrower.

Loan Payments and Other Amounts Payable

The Borrower shall pay as repayment of the Loan, until the principal of, premium, if any, and interest on the Series 2016 Promissory Note have been paid or provision for the payment thereof otherwise made in accordance with the Loan Agreement, into the Bond Fund, commencing on July 25, 2017 and each July 25 thereafter the principal due on each subsequent Principal Payment Date; and commencing January 25, 2017 and each July 25 and January 25 thereafter, the interest due on each subsequent Interest Payment Date.

The Borrower shall pay or provide for the payment of the required amount into accounts of the Debt Service Reserve Fund upon notice of any deficiency therein in accordance with the Indenture. If the Trustee determines on any valuation date permitted by the Indenture that the amount in an account of the Debt Service Reserve Fund is less than the related Series Debt Service Reserve Fund Requirement and the deficiency is caused solely by a decreased value of the Investment Obligations therein and not due to a transfer to cure a shortfall in the Bond Fund, the Borrower agrees to pay to the Trustee, for deposit into the account of the Debt Service Reserve Fund, an amount equal to the amount by which the amount in account of the Debt Service Reserve Fund is less than the related Series Debt Service Fund Requirement in the next month following that valuation date. If the amount in the account of the Debt Service Reserve Fund is less than the related Series Debt Service Reserve Fund Requirement and the deficiency is caused by a transfer to cure a shortfall in the Bond Fund resulting from the failure of the Borrower to make the payments due under the Indenture, the Borrower agrees pursuant to the Loan Agreement to pay to the Trustee all amounts transferred to the Bond Fund to make up for any amounts not paid on the Series 2016 Promissory Note in not more than six substantially equal monthly installments beginning in the month following such deficiency; and provided that no such installment shall be less than \$5,000.

During the term of the Loan Agreement, the Borrower shall pay or provide for the payment of all taxes and assessments, general or special, concerning or in any way related to the Campus or any part thereof, and any other governmental charges and impositions whatsoever related to the Campus, and premiums for insurance policies maintained on the Campus as required by the Loan Agreement.

The Borrower shall pay or cause to be paid to the Trustee for deposit to the Rebate Fund all amounts required to be deposited in the Rebate Fund pursuant to the Tax Agreement. The Borrower shall also pay to the Trustee an amount necessary to pay the fees and expenses of the Rebate Analyst when due.

The Borrower agrees to pay all taxes and assessments of any type or character charged to the Issuer or to the Trustee affecting the amount available to the Issuer or the Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated thereby (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Trustee and taxes based upon or measured by the net income of the Trustee; provided, however, that the Borrower shall have the right to protest any such taxes or assessments and to require the Issuer or the Trustee, at the Borrower's expense, to protest and contest any such taxes or assessments levied upon them and that the Borrower shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Issuer or the Trustee.

The Borrower agrees to pay the reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Issuer or the Trustee in connection with the

performance of its duties under the Loan Agreement or in the Indenture and to prepare audits, financial statements, reports, opinions or provide such other services required under the Loan Agreement, the Borrower Documents or the Indenture, including, but not limited to, any audit or inquiry by the Internal Revenue Service or any other governmental body.

The Borrower will pay the Issuer's Annual Fee and the reasonable fees and expenses of the Issuer or any agent or attorney selected by the Issuer to act on its behalf in connection with the Loan Agreement, the Borrower Documents, the Bonds or the Indenture, including, without limitation, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds or in connection with any litigation, investigation, inquiry or other proceeding which may at any time be instituted involving the Loan Agreement, the Borrower Documents, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connection with the reasonable supervision or inspection of the Borrower, its properties, assets or operations or otherwise in connection with the administration of the Loan Agreement and the Borrower Documents.

In the event the Borrower should fail to make or fail to cause to be made any of the payments required by the Loan Agreement, the item or installment in default shall continue as an obligation of the Borrower until the amount in default shall have been fully paid, and the Borrower agrees to pay the same and interest at the highest rate of interest borne by any of the Series 2016 Bonds, or the maximum rate permitted by law if less than such rate.

Unconditional Obligations

Except as may be otherwise provided in the Loan Agreement, the obligations of the Borrower to make the payments required under the Loan Agreement and to perform and observe the other agreements on its part contained in the Loan Agreement shall be absolute and unconditional, and the Borrower agrees that it will make payments directly to the Trustee without defense or setoff by reason of any dispute between the Borrower and the Issuer or the Trustee. The Borrower (i) will not suspend or discontinue, or permit the suspension or discontinuance of, any payments provided for in the Loan Agreement, (ii) will perform and observe all of its other agreements contained in the Loan Agreement, the Negative Pledge Agreement and the Series 2016 Promissory Note, and (iii) except as provided in the Loan Agreement, will not terminate the Loan Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure to complete the Project, failure of consideration, eviction or constructive eviction, destruction of or damage to the Campus, commercial frustration of purpose, or change in the tax or other laws or administrative rulings of or administrative actions by the United States of America or the State of North Carolina or any political subdivision of either, any failure of the Issuer to perform and observe any agreement, or any duty, liability, or obligation arising out of or connected with the Loan Agreement, or any failure of the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture, whether express or implied. The Borrower may at its own cost and expense and in its own name, prosecute or defend any action or proceeding or take any other action involving third persons which the Borrower deems reasonably necessary in order to secure or protect its or its lessees' rights of possession, occupancy and use of the Campus.

Maintenance and Modifications of Campus by Borrower

The Borrower agrees that during the term of the Loan Agreement the Campus shall be operated and maintained, in compliance with all governmental laws, building codes, ordinances, and regulations and zoning laws as shall be applicable to such Campus, unless the same are being contested in good faith by appropriate proceedings. The Borrower agrees that during the term of the Loan Agreement it will at its own expense (i) keep the Campus in as safe of a condition as required by law and (ii) except to the

extent the Borrower has determined that any portion of the Campus is obsolete or not useful in its operations, keep the Campus in good repair and in good operating condition, making from time to time all necessary repairs thereto (including external and structural repairs) and renewals and replacements thereof all of which shall be accomplished in a workmanlike manner in accordance with all applicable laws. The Borrower may dispose of portions of the Campus that the Borrower determines to be obsolete or not useful to operations of the Campus. The Borrower may also, at its own expense, make from time to time any additions, modifications or improvements to the Campus it may deem desirable for its purposes that do not substantially reduce its value; provided that all such additions, modifications and improvements made by the Borrower which are affixed to the Campus shall become a part of the Campus.

Taxes, Other Governmental Charges and Utility Charges

The Borrower will pay, as the same become due, (i) all taxes and governmental charges of any kind whatsoever or payments in lieu of taxes that may at any time be lawfully assessed or levied against or with respect to the Campus or any interest therein, or any machinery, equipment, or other property installed or brought by the Borrower therein or thereon which, if not paid, will become a lien on the Campus, (ii) all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Campus and (iii) all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a Lien on the Campus provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower shall be obligated to pay only such installments as may have become due during the term of the Loan Agreement or that may be necessary to prevent the imposition of a Lien.

In the event that the Borrower shall fail to pay any of the items required by the Loan Agreement to be paid by the Borrower, the Issuer or the Trustee may (but shall be under no obligation to) pay the same and any amounts so advanced therefor by the Issuer or the Trustee shall become an additional obligation of the Borrower payable to the one making the advance, which amount the Borrower agrees to pay on demand together with interest thereon at a rate which shall be 3% per annum above the highest rate of interest borne by the Series 2016 Bonds or the maximum rate permitted by law if less than such rate, but in no event higher than the maximum interest rate approved in the Issuer's resolution authorizing the issuance of the Series 2016 Bonds.

Insurance Required; Advances by Issuer or Trustee

The Borrower covenants that it will maintain or cause to be maintained insurance, if commercially available, of such type, against such risks and in such amounts, with insurance companies or by means of self-insurance, as are customarily carried by similar institutions located in the State of North Carolina of a nature similar to that of the Borrower, which insurance shall include property damage, fire and extended coverage, public liability and property damage liability insurance.

In the event the Borrower shall fail to maintain the full insurance coverage required by the Loan Agreement or shall fail to keep the Campus in the condition required thereby (except as otherwise permitted in the Loan Agreement), the Issuer or the Trustee may (but shall be under no obligation to) take out the required policies of insurance and pay the premiums on the same, or make the required repairs, renewals and replacements; and all amounts advanced therefor by the Issuer or the Trustee shall become an additional obligation of the Borrower under the Loan Agreement to the one making the advance, which amounts the Borrower agrees to pay immediately upon demand together with interest thereon at a rate which shall be 3% per annum above the highest interest rate borne by any of the Series 2016 Bonds or the maximum rate permitted by law if less than such rate.

Environmental Covenants

The Borrower will not conduct, or allow to be conducted, any business, operation, or activity on, under, or in the Campus, or employ or use the Campus or allow for it to be employed or used, that in any way materially violates any Environmental Laws or Environmental Requirements.

Damage, Destruction and Condemnation

In the event of a casualty or condemnation with respect to the Campus, and so long as no Event of Default exists and is continuing, the net proceeds from any insurance policy or the net proceeds of any condemnation award resulting from such casualty or condemnation shall be used for the repair, replacement or restoration of the Campus to substantially the same condition as existed prior to such damage, destruction or condemnation.

Extraordinary Mandatory Prepayment

The Loan and Series 2016 Promissory Note securing the Loan are subject to mandatory prepayment as a whole or in part at the principal amount thereof plus accrued interest thereon to the date of prepayment, but without premium, as a result of any changes in the Constitution of the State, or the State of North Carolina, or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by the Borrower in good faith, the Loan Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purposes of the parties as expressed in the Loan Agreement.

No Change in Loan Payments

All buildings, improvements and equipment acquired in the repair, rebuilding or restoration of the Campus shall be deemed a part of the Campus and shall be available for use and occupancy by the Borrower, without the payment of any payments under the Loan Agreement other than the Loan Payments and other payments required to be made under the Loan Agreement, to the same extent as if they were specifically described in the Loan Agreement.

No warranty of Condition or Suitability by the Issuer

The Issuer makes no warranty, either express or implied, as to the Campus or that it will be suitable for the Borrower's purposes or needs or that the proceeds of the Series 2016 Bonds will be sufficient to pay the Costs of the Project.

Consolidation, Merger, Sale or Conveyance

The Borrower agrees that during the term of the Loan Agreement it will maintain its corporate existence, will continue to be a nonprofit corporation duly qualified to do business in the State of North Carolina, will not merge or consolidate with, or sell or convey, except as provided in the Loan Agreement, all or substantially all of its interest in the Campus to, any Person unless (i) no Event of Default has occurred and is continuing, (ii) it first acquires the consent of the Issuer to such transaction, (iii) it provides to the Trustee notice of its intent at least 90 days in advance of such consolidation, merger, sale or conveyance, and (iv) the acquirer of the interest in the Campus or the corporation with which it shall be consolidated or the resulting corporation in the case of a merger:

(a) shall assume in writing the performance and observance of all covenants and conditions of the Loan Agreement;

(b) shall provide the Trustee with an opinion of Bond Counsel to the effect that such merger, consolidation, sale or conveyance, would not adversely affect the validity of any of the Outstanding Bonds or the exclusion from gross income for federal income tax purposes of interest on the Outstanding Tax-Exempt Bonds;

(c) shall provide the Issuer and the Trustee with an Opinion of Counsel to the Borrower (which may be rendered in reliance upon the Opinion of Counsel to such other corporation), stating that none of the other corporations which are a party to such consolidation, merger or transfer has any pending litigation other than that arising in the ordinary course of business, or has any pending litigation which might reasonably result in a substantial adverse judgment. For the purposes of the preceding sentence, the term “substantial adverse judgment” shall mean a judgment in an amount which exceeds the insurance or reserves therefor by a sum which is more than 2% of the aggregate net worth of the resulting, surviving or transferee corporation immediately after the consummation of such consolidation, merger or transfer and after giving effect thereto;

(d) shall deliver to the Trustee within 30 days of the close of such transaction, copies of all documents executed in connection therewith, one document of which shall include an Opinion of Counsel that all conditions in the Loan Agreement have been satisfied and that all liabilities and obligations of the Borrower under the Borrower Documents shall become obligations of the new entity; provided, however, the Borrower shall not be released from same;

(e) in the case of a consolidation, merger, sale or conveyance, shall provide evidence to the Trustee that on an historical pro forma basis for the preceding Fiscal Year for which audited financial statements are available, the entity would have complied with the Debt Service Coverage Ratio requirements of the Loan Agreement.

Tax Covenants

The Borrower will not take any action or omit to take any action, which action or omission will adversely affect the exclusion from gross income of the interest on the Tax-Exempt Bonds for federal income tax purposes or cause the interest on the Tax-Exempt Bonds, or any portion thereof, to become an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code, and in the event of such action or omission, it will, promptly upon having such brought to its attention, take such reasonable actions based upon an opinion of Bond Counsel, and in all cases at the sole expense of the Borrower, as may be necessary to rescind or otherwise negate such action or omission. The Borrower will not directly or indirectly, use or permit the use of any Series 2016 Bond Proceeds or any other funds of the Borrower, or take or omit to take any action, that would cause the Tax-Exempt Bonds to be or become “arbitrage bonds” within the meaning of Section 148(a) of the Code or to fail to meet any other applicable requirement of Sections 141, 148, 149 and 150 of the Code or cause the interest on the Tax-Exempt Bonds, or any portion thereof, to become an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations under the Code. To that end, the Borrower will comply with all requirements of Sections 141, 148, 149 and 150 of the Code to the extent applicable to the Tax-Exempt Bonds. If, at any time, the Borrower is of the opinion that, for purposes of the Loan Agreement, it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee or otherwise, the Borrower shall so instruct the Trustee in writing.

Audits and Financial Statements

The Borrower agrees that it will have its books and records audited annually commencing with the Fiscal Year ended June 30, 2016, by an Accountant as soon as practicable after the close of such Fiscal Year, and shall furnish such report to the Trustee and the Underwriter. The audit report shall include a demonstration of compliance with all financial covenants in the Loan Agreement and shall be furnished to the Trustee within 150 days after the end of each Fiscal Year.

The Borrower agrees that it will maintain proper books of records and accounts with full, true and correct entries of all of its dealings substantially in accordance with practices generally used for PK-12 educational institution accounting, and such other data and information as may reasonably be requested by the Issuer and the Trustee from time to time.

Debt Service Coverage Ratio

The Borrower will be required to deliver annually, upon completion of the Borrower's annual audit, to the Issuer and the Trustee a certificate stating the Debt Service Coverage Ratio for the Fiscal Year then ended and evidencing the calculation therefore, commencing with the Fiscal Year ending June 30, 2017. The Debt Service Coverage Ratio is required to be at or above 1.25 to 1 for each Fiscal Year, commencing with the Fiscal Year ending June 30, 2017. If, for any Fiscal Year ending June 30, 2017 or after, such Debt Service Coverage Ratio is below 1.25 to 1, the Borrower shall retain, at its expense, an Independent Consultant to submit a written report and make recommendations within 60 days of being retained (a copy of such report and recommendations shall be filed with the Underwriter and the Trustee) with respect to increasing income of the Borrower, decreasing operating expenses or other financial matters of the Borrower which are relevant to increasing the Debt Service Coverage Ratio to at least the required level. The Borrower agrees that promptly upon the receipt of such recommendation, subject to applicable requirements or restrictions imposed by law, it shall revise its methods of operation and take such other actions to comply with any reasonable recommendation of the Independent Consultant identified in the report of the Independent Consultant. The Trustee is required to notify Registered Owners of the Outstanding Bonds of the Debt Service Coverage Ratio if the Debt Service Coverage Ratio is below 1.00 to 1. So long as the Debt Service Coverage Ratio is not below 1.00 to 1, and so long as the Borrower shall retain an Independent Consultant and complies with such Independent Consultant's recommendations (except as set forth above), no default or Event of Default shall be declared solely by reason of a violation of the requirements of this paragraph.

Notwithstanding the provisions described in the preceding paragraph, the failure of the Borrower to have a Debt Service Coverage Ratio of at least 1.00 to 1 for any Fiscal Year ending June 30, 2017 or after shall be an Event of Default under the Trust Agreement.

Indemnification Covenants

Under the Loan Agreement, the Borrower fully and forever and irrevocably releases and, to the fullest extent permitted by law, agrees to indemnify, hold harmless and defend (i) the Trustee Indemnified Parties, (ii) the Issuer and (iii) the Issuer Indemnified Parties (as defined in the Indenture) (collectively, the "Indemnified Parties"), against any and all Liabilities to which the Indemnified Parties, or any of them, may become subject under or any statutory law or regulations (including federal or state securities laws and regulations and federal tax laws and regulations) or at common law or otherwise, arising out of or based upon or in any way relating to:

(a) the Bonds, the Indenture, the Loan Agreement, the Borrower Documents, the Tax Agreement and the execution or amendment thereof or in connection with transactions contemplated, including the issuance, sale or resale of the Bonds;

(b) the performance and observance by or on behalf of the Issuer of those things on the part of the Issuer agreed to be performed or observed under the Loan Agreement, the Indenture and the documents identified above;

(c) any act or omission of the Borrower or any of its agents, contractors, employees, tenants or licensees in connection with the Campus, the operation of the Campus, or the condition, environmental or otherwise, occupancy, use, possession, conduct or management of work done in or about, or from the planning, design, acquisition, installation or construction of, the Project or any part thereof;

(d) any lien or charge upon payments by the Borrower to the Issuer and the Trustee under the Loan Agreement, or any taxes (including, without limitation, all ad valorem taxes and sales taxes), assessments, impositions and other charges imposed on the Issuer or the Trustee in respect of any portion of the Campus;

(e) any violation of any Environmental Law or Environmental Requirements with respect to, or the release of any Regulated Chemicals from, the Campus or any part thereof;

(f) the defeasance and/or redemption, in whole or in part, of the Bonds;

(g) any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact contained in any offering or disclosure document or disclosure or continuing disclosure document for the Bonds or any of the documents relating to the Bonds, or any omission or alleged omission from any offering or disclosure document or disclosure or continuing disclosure document for the Bonds of any material fact necessary to be stated therein in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading (excepting only any statements, omissions or alleged omissions specifically identified in any such offering or disclosure document as having been provided by the applicable Indemnified Partie(s));

(h) any declaration of taxability of interest on the Bonds, or allegations that interest on the Bonds is taxable or any regulatory audit or inquiry regarding whether interest in the Bonds is taxable;

(i) the Trustee's acceptance or administration of the trust of the Indenture, or the exercise or performance of any of its powers or duties thereunder or under any of the documents relating to the Bonds to which it is a party;

(j) any injury to or death of any person or damage to property in or upon the Campus or growing out of or connected with the use, nonuse, condition or occupancy of the Campus;

except (i) in the case of the foregoing indemnification of the Trustee Indemnified Parties, to the extent such damages are caused by the negligence or willful misconduct of such Trustee Indemnified Party; or (ii) in the case of the foregoing indemnification of the Issuer or the Issuer Indemnified Parties, to the extent such damages are caused by the willful misconduct of the Person otherwise entitled to indemnification.

THE BORROWER EXPRESSLY ACKNOWLEDGES AND AGREES THAT THE ISSUER AND THE ISSUER INDEMNIFIED PARTIES SHALL BE RELEASED FROM, AND INDEMNIFIED UNDER THE LOAN AGREEMENT AGAINST, LIABILITIES ARISING FROM THE ISSUER'S OR ANY ISSUER INDEMNIFIED PARTY'S OWN NEGLIGENCE OF ANY KIND, DESCRIPTION OR DEGREE (WITHOUT REGARD TO THE PROVISIONS OF SECTION 895.045 OF THE WISCONSIN STATUTES) OR BREACH OF CONTRACTUAL DUTY, WITHOUT REGARD TO OR THE NECESSITY OF ANY BREACH OR FAULT ON THE PART OF THE BORROWER, EXCEPT INsofar AS AND TO THE EXTENT THAT ANY SUCH LIABILITIES ARISE FROM THE WILLFUL MISCONDUCT OF THE PERSON SEEKING INDEMNIFICATION.

In the event that any action or proceeding is brought against any Indemnified Party with respect to which indemnity may be sought under the Loan Agreement, the Borrower, upon written notice from the Indemnified Party, shall assume the investigation and defense thereof, including the employment of counsel selected by the Indemnified Party, and shall assume the payment of all expenses related thereto, with full power to litigate, compromise or settle the same in its sole discretion; provided that the Indemnified Party shall have the right to review and approve or disapprove any such compromise or settlement. Each Indemnified Party shall have the right to employ separate counsel in any such action or proceeding and participate in the investigation and defense thereof. Borrower shall pay the reasonable fees and expenses of such separate counsel; provided, however, that such Indemnified Party may only employ separate counsel at the expense of the Borrower if in the judgment of such Indemnified Party a conflict of interest exists by reason of common representation or if all parties commonly represented do not agree as to the action (or inaction) of counsel.

The rights of any persons to indemnity under the Loan Agreement and rights to payment of fees and reimbursement of expenses shall survive the final payment or defeasance of the Bonds and in the case of the Trustee any resignation or removal. The provisions above shall remain valid and in effect notwithstanding repayment of the Loan under the Loan Agreement or payment, redemption or defeasance of the Bonds or termination of the Loan Agreement or the Indenture.

Insofar as any other document or instrument issued or delivered in connection with the Bonds (including, without limitation, the documents referred to above) purports to constitute an undertaking by or impose an obligation upon the Borrower to provide indemnification to Issuer or the Issuer Indemnified Parties, the indemnification provision or provisions of such document shall not be deemed, interpreted or construed in any way as a modification of or limitation upon the Borrower's obligations or the rights of Issuer and the Issuer Indemnified Parties under this heading, and the provisions of this heading shall in every respect supersede the indemnification provisions of any such other document and shall apply thereto as if fully set forth therein.

In addition to and without in any way limiting its obligations to pay and indemnify the Issuer and the Issuer Indemnified Parties against fees, costs and charges arising out of or in connection with the Loan Agreement, the Borrower Documents, the Series 2016 Bonds or the Indenture the Borrower shall pay, upon the closing of the issuance of the Series 2016 Bonds and as a condition thereto: (i) to the Issuer the Issuer's issuance fee of \$15,000.00 (less, if applicable, any application fee paid by the Borrower to the Issuer pursuant to the Loan Agreement); and (ii) attorney's fees incurred by the Issuer in connection with the issuance of the Series 2016 Bonds.

Limitations on Additional Indebtedness

The Borrower is restricted from, except as provided below, incurring any additional Indebtedness that does not exist as of the date of the Trust Agreement, except for:

(a) *Parity Indebtedness.* The Borrower may, with the written confirmation by the Trustee that all conditions of the Indenture regarding Additional Bonds have been met if Additional Bonds are to be issued in connection with such additional Indebtedness, incur additional Indebtedness, which may or may not be evidenced by amending the Loan Agreement, on a parity with amounts granted by the Loan Agreement in the following instances:

(1) *Long-Term Indebtedness.* The Borrower may issue additional Indebtedness if either of the following tests is met:

(A) the Debt Service Coverage Ratio for the most recent Fiscal Year for which an audit has been completed was at least 1.25 to 1 (taking into account the proposed additional Long-Term Indebtedness and any Long-Term Indebtedness to be refinanced thereby); or

(B) an Independent Consultant reports that the (a) the Debt Service Coverage Ratio for the most recent Fiscal Year for which an audit has been completed was at least 1.25 to 1, and (b) the Debt Service Coverage Ratio for each the first three consecutive Fiscal Years following the incurrence of such Long-Term Indebtedness or, if such Long-Term Indebtedness is being issued to finance improvements, equipment or new facilities, the first three consecutive Fiscal Years after such improvements, equipment or new facilities are placed in service, is projected to be at least 1:25 to 1 (taking into account the proposed additional Long-Term Indebtedness and any Long-Term Indebtedness to be refinanced thereby and provided that, such projected Net Income Available for Debt Service shall be adjusted to provide for any projected revenues and expenses anticipated as the result of any real or personal property acquired, constructed, or completed with the proceeds of any such Long-Term Indebtedness).

(2) *Completion Indebtedness.* The Borrower may issue Completion Indebtedness in an amount not to exceed 10% of the original Indebtedness issued for the purpose of financing certain Capital Improvements, if the following conditions are met: (i) the Borrower certifies, in writing, to the trustee that at the time the original Indebtedness issued for the purpose of financing certain Capital Improvements was incurred, the Borrower believed or had reason to believe that the proceeds of such Indebtedness together with other moneys then expected to be available to pay for such Capital Improvements would provide sufficient moneys for the completion thereof; and (ii) the Borrower certifies, in writing, to the Trustee that the proceeds of the proposed Completion Indebtedness, together with other legally available moneys of the Borrower, will be in an amount equal to the amount set forth in clause (ii) of this paragraph.

(b) *Refunding Indebtedness.* The Borrower may issue Refunding Indebtedness, provided that the Borrower certifies, in writing, to the Trustee that the Maximum Annual Debt Service on Indebtedness will not be increased by more than 10% by such refunding.

(c) *Non-Recourse Indebtedness.* The Borrower may issue Non-Recourse Indebtedness without limitation.

Indebtedness may be incurred under any of clauses (a) through (d) above even though other Indebtedness is simultaneously being incurred under a different clause summarized under the Trust Agreement.

Continuation of Operation in Event of Casualty

In the event of any damage to or destruction of the Campus or any part thereof by fire, lightning, vandalism, malicious mischief and extended coverage perils, the Borrower shall make all diligent and reasonable efforts to continue operation of the Borrower in such a manner that will ensure continuation of Loan Payments or shall obtain or use other financing resources to continue operation of the Borrower and ensure due and timely payment of the Loan Payments.

Events of Default

The following shall be Events of Default under the Loan Agreement and the term Event of Default shall mean, whenever it is used in the Loan Agreement, any one or more of the following events:

(a) Failure by the Borrower to pay the Loan Payments required to be paid under the Loan Agreement.

(b) Failure by the Borrower to observe or perform any other covenant, condition or agreement on its part to be observed or performed in the Loan Agreement other than as referred to in the Loan Agreement, for a period of 30 days after written notice specifying such failure and requesting that it be remedied, shall have been given to the Borrower by the Issuer or the Trustee; provided, with respect to any such failure covered by the Loan Agreement, no Event of Default shall be deemed to have occurred so long as a course of action adequate in the judgment of the Trustee to remedy such failure shall have been commenced within such 30-day period and shall thereafter be diligently pursued to completion and the failure shall be remedied within 90 days of such notification, unless said remedy cannot be performed within 90 days and the Borrower is actively working toward a remedy.

(c) The dissolution or liquidation of the Borrower. The phrase “dissolution or liquidation of the Borrower,” shall not be construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another domestic corporation or a dissolution or liquidation of the Borrower following a transfer of all or substantially all of its assets under the conditions permitting such actions contained in the Loan Agreement.

(d) The entry of a decree or order for relief by a court having jurisdiction in the premises in respect of the Borrower in an involuntary case under the federal bankruptcy laws, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Borrower or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days.

(e) The commencement by the Borrower of a voluntary case under the federal bankruptcy laws, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law, or the consent by it to the appointment of or taking

possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Borrower or for any substantial part of its property, or the making by it of any assignment for the benefit of creditors, or the failure of the Borrower generally to pay its debts as such debts become due, or the taking of corporate action by the Borrower in furtherance of any of the foregoing.

(f) Failure of the Borrower to comply with any covenants contained in the Tax Agreement.

(g) The occurrence of an Event of Default under the Indenture or the Borrower Documents.

(h) Any representation or warranty made by the Borrower in the Indenture or made by the Borrower in any statement or certificate furnished by the Borrower either required in connection with the execution and delivery of the Loan Agreement and the sale and the issuance of the Series 2016 Bonds, shall prove to have been untrue in any material respect as of the date of the issuance or making thereof.

(i) Judgment for the payment of money in excess of \$250,000.00* (which is not covered by insurance) is rendered by any court or other governmental body against the Borrower, and the Borrower does not discharge same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof within 60 days from the date of entry thereof, and within said 60-day period or such longer period during which execution of such judgment shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal while providing such reserves therefor as may be required under Generally Accepted Accounting Principles.

(j) A writ or warrant of attachment or any similar process shall be issued by any court against the Campus, and such writ or warrant of attachment or any similar process is not released or bonded within 60 days after its entry.

(k) Any of Borrower's representations and warranties in the Borrower Documents with respect to environmental matters are false in any material respect.

(l) The Borrower ceases to operate as a PK-12 educational institution.

(m) The Debt Service Coverage Ratio is less than 1.00 in any Fiscal Year ending on or after June 30, 2017.

The foregoing provisions of subsection (b) above are subject to the following limitations: if by reason of force majeure (as defined in the Loan Agreement) the Borrower is unable in whole or in part to carry out its agreements under the Loan Agreement the Borrower shall not be deemed in default during the continuance of such inability. The Borrower agrees, however, if possible, to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements; provided, that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Borrower, and the Borrower shall not be required to make settlement of strikes, lockouts or other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Borrower unfavorable to the Borrower.

* * Change from the Preliminary Official Statement.

Remedies on Default

Whenever an Event of Default referred to in the Loan Agreement shall have occurred and is continuing, the Issuer, or the Trustee where so provided in the Loan Agreement, may take any one or more of the following remedial steps:

(a) The Trustee (acting as assignee of the Issuer) or the Issuer (in the event of a failure of the Trustee to act), as and to the extent provided in the Indenture, may declare the Loan Payments payable under the Loan Agreement, for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same shall become due and payable.

(b) The Trustee (acting as assignee of the Issuer) or the Issuer (in the event of a failure of the Trustee to act under this subsection or with regard to the Issuer's Unassigned Rights), as and to the extent provided in the Indenture, may take whatever action at law or in equity as may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance or observance of any obligations, agreements, or covenants of the Borrower under the Loan Agreement and the Borrower Documents.

Notwithstanding the foregoing, prior to the exercise by the Issuer or the Trustee of any remedy that would prevent the application of this paragraph, the Borrower may, at any time, pay all accrued payments under the Loan Agreement and fully cure all defaults, and in such event, the Borrower shall be fully reinstated to its position under the Loan Agreement as if such Event of Default had never occurred, provided, that the right to cure and extinguish such Event of Default as provided in the Loan Agreement shall not be available if the Trustee or the Issuer exercised any such remedy at the direction of a majority in principal amount of the bonds then outstanding, as provided in the Indenture, unless the holders of a majority in principal amount of the Bonds then Outstanding consent to such cure and extinguishment.

In the event that the Borrower fails to make any payment required, the payment so in default shall continue as an obligation of the Borrower until the amount in default shall have been fully paid.

Whenever any Event of Default has occurred and is continuing under the Loan Agreement, the Trustee may, but except as otherwise provided in the Indenture shall not be obligated to, exercise any or all of the rights of the Issuer under this section (other than the Issuer's Unassigned Rights), upon notice as required to the Issuer. In addition, the Trustee shall have available to it all of the remedies prescribed in the Indenture. The Issuer may, without the consent of the Trustee, take whatever action at law or in equity may appear necessary or appropriate to enforce the Issuer's Unassigned Rights and to collect all sums then due and thereafter to become due to the Issuer under the Loan Agreement.

Any amounts collected pursuant to action taken under the immediately preceding paragraph (other than sums collected for the Issuer on account of the Issuer's Unassigned Rights, which sums shall be paid directly to the Issuer), after reimbursement of any costs incurred by the Issuer or the Trustee in connection therewith shall be applied in accordance with the provisions of the Indenture.

If the Issuer or the Trustee (or the Trustee on behalf of the Issuer), shall have proceeded to enforce their respective rights under the Loan Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Issuer or the Trustee, then and in every such case, the Borrower, the Issuer and the Trustee shall be restored to their respective positions and rights under the Loan Agreement, and all rights, remedies and powers of the Borrower, the Issuer and the Trustee shall continue as though no such proceedings had been taken.

Notwithstanding anything to the contrary in the Loan Agreement or the Indenture, the Issuer shall have no obligation to and instead the Trustee, in accordance with the Indenture or the Loan Agreement, shall have the right, without any direction from or action by the Issuer, to take any and all steps, actions and proceedings, to enforce any or all rights of the Issuer (other than the Issuer's Unassigned Rights) under the Indenture or the Loan Agreement, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the Borrower under the Loan Agreement or the Indenture.

No provision of the Loan Agreement or the Indenture shall be deemed or construed as limiting, affecting or impairing in any way the Issuer's or any Issuer Indemnified Party's right to enforce the Issuer's Unassigned Rights, notwithstanding the existence or continuance of a default or Event of Default (including, without limitation, a payment default), or any action based thereon or occasioned by an Event of Default or an alleged Event of Default, and notwithstanding any waiver or forbearance by the Trustee, the Registered Owners or the Beneficial Owners of any default or Event of Default under the Loan Agreement or thereunder. Any default or Event of Default in respect of the Issuer's Unassigned Rights may only be waived with the Issuer's written consent.

If an Event of Default has occurred and is continuing under the Loan Agreement and the Issuer or the Trustee employ attorneys or incur other expenses for the collection of Loan Payments or the enforcement of performance or observance of any obligation or agreement on the part of the Borrower contained in the Loan Agreement, the Borrower agrees that it will, on demand therefore, pay to the Issuer or the Trustee, as the case may be, the reasonable fees of such attorneys and such other reasonable expenses incurred by the Issuer or the Trustee. The obligations of the Borrower shall continue in full force and effect notwithstanding the final payment of the Bonds or the termination of the Loan Agreement.

No Remedy Exclusive

No remedy conferred under the Loan Agreement or reserved to the Issuer or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Loan Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer to exercise any remedy reserved to it in the Loan Agreement, it shall not be necessary to give any notice, other than notice required under the Loan Agreement or by applicable law. Such rights and remedies as are given the Issuer under the Loan Agreement shall also extend to the Trustee, the Beneficial Owners and the Registered Owners of the Series 2016 Bonds, subject to the Indenture.

Waiver

In the event any agreement contained in the Loan Agreement should be breached by any party and thereafter waived by any other party, such waiver shall be limited to the particular breach waived and shall not be deemed to waive any other breach under the Loan Agreement. In view of the assignment of the Issuer's rights in and under the Loan Agreement (except for the Issuer's Unassigned Rights) to the Trustee under the Indenture, the Trustee shall have no power to waive any Event of Default under the Loan Agreement without the consent of the Issuer. Notwithstanding the foregoing, a waiver of an Event of Default under the Indenture or a rescission of a declaration of acceleration of the Bonds and a rescission and annulment of its consequences shall constitute a waiver of the corresponding Event of Default under the Loan Agreement and a rescission and annulment of its consequences; provided, that no

such waiver or rescission shall extend to or affect any subsequent or other default under the Loan Agreement or impair any right consequent thereon.

General Option to Prepay the Loan

So long as no Event of Default pursuant to the Loan Agreement exists, the Borrower shall have the option exercisable at any time to prepay all or any portion of the Loan by depositing with the Trustee an amount of money or securities, to the extent permitted by the Indenture, representing the principal amount, the premium, if any, and interest on the Loan to be paid at maturity, with respect to the Series 2016 Bonds, or prepaid to the date a corresponding amount of Series 2016 Bonds are redeemed. The exercise of the option granted by the Loan Agreement shall not be cause for redemption of Series 2016 Bonds unless such redemption is permitted at that time under the provisions of the Indenture and the Borrower specifies the date for such redemption. Prior to the date the Series 2016 Bonds are subject to redemption, the Series 2016 Promissory Note is prepayable at any time in an amount sufficient to defease a related amount of Series 2016 Bonds in accordance with the Indenture. In the event the Borrower prepays all of the Loan pursuant to the Loan Agreement, pays all reasonable and necessary fees and expenses of the Trustee accrued and to accrue through final payment of the Series 2016 Bonds as a result of such prepayment, and all of its liabilities accrued and to accrue under the Loan Agreement to the Issuer through final payment of the Series 2016 Bonds as a result of such prepayment, and all other amounts payable by the Borrower under the Loan Agreement, including required payments to the Rebate Fund, the Loan Agreement shall terminate except as otherwise provided in the Loan Agreement.

In order to exercise the above option, the Borrower shall give written notice to the Trustee specifying the date of making the prepayment, which date shall be not less than 45 days nor more than 90 days from the date the notice is mailed. In the case of any prepayment pursuant to the Loan Agreement, the Borrower shall make arrangements with the Trustee for giving the required notice of redemption, if any, with respect to any Series 2016 Bonds to be redeemed and shall pay to the Trustee an amount of money sufficient to redeem all of the Series 2016 Bonds to be called for redemption at the appropriate price prior to the redemption date.

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APPENDIX C

**AUDITED FINANCIAL STATEMENTS OF THE FRIENDS SCHOOL
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2015
AND UNAUDITED MANAGEMENT-PREPARED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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CAROLINA FRIENDS SCHOOL

FINANCIAL STATEMENTS

Year Ended June 30, 2014
(With Comparative Totals for June 30, 2013)



DMJ & Co., PLLC

CAROLINA FRIENDS SCHOOL

June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Carolina Friends School
Durham, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Carolina Friends School (the School) which are comprised of the statement of financial position as of June 30, 2014, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements. The prior-year summarized comparative information has been derived from the School's 2013 financial statements and in our report dated December 1, 2013, we expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



DMJ & Co., PLLC

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2014, and the results of their operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DMQ & Co., PLLC

Certified Public Accountants
Greensboro, North Carolina

November 13, 2014

CAROLINA FRIENDS SCHOOL

FINANCIAL STATEMENTS

Year Ended June 30, 2014

(With Comparative Totals for June 30, 2013)

CAROLINA FRIENDS SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30, 2014

(With Comparative Totals for June 30, 2013)

ASSETS

	2014	2013
Cash	\$ 5,332,479	\$ 5,524,401
Certificates of deposit	2,702,757	2,202,757
Accounts receivable, students (less reserve for uncollectible accounts of \$70,000 and \$59,036 in 2014 and 2013, respectively)	66,707	129,712
Accounts receivable, other	43,898	48,261
Prepaid expenses	43,991	66,211
Unconditional promises to give, net	1,446,857	1,531,564
Investments	11,245,250	9,161,684
Property and equipment, net	9,592,126	8,362,657
Prepaid rent	149,399	156,458
Land held for investment	71,225	71,225
Total Assets	\$ 30,694,689	\$ 27,254,930

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 181,776	\$ 165,600
Accrued payroll	734,679	723,042
Unearned revenue	2,979,972	2,958,341
Liability under life estate	541,753	585,902
Total Liabilities	4,438,180	4,432,885
Net Assets		
Unrestricted	11,405,497	9,921,214
Temporarily restricted	8,481,819	6,538,270
Permanently restricted	6,369,193	6,362,561
Total Net Assets	26,256,509	22,822,045
Total Liabilities and Net Assets	\$ 30,694,689	\$ 27,254,930

See accompanying notes to financial statements.

CAROLINA FRIENDS SCHOOL

STATEMENT OF ACTIVITIES

For Year Ended June 30, 2014
 (With Comparative Totals for June 30, 2013)

	2014				2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, Gains, and Other Support					
Tuition and fees, net of financial aid of \$867,332 and \$839,523 for 2014 and 2013, respectively	\$ 7,456,698	\$ -	\$ -	\$ 7,456,698	\$ 6,948,262
Auxiliary services	894,829	-	-	894,829	1,002,613
Private gifts, grants, and contracts	421,597	1,659,745	6,632	2,087,974	2,372,877
Dividends and interest income	19,190	61,112	-	80,302	87,132
Net realized and unrealized gain on investments	330,347	1,795,944	-	2,126,291	1,596,780
Net assets released from restrictions	1,573,252	(1,573,252)	-	-	-
Total Revenue, Gains, and Other Support	10,695,913	1,943,549	6,632	12,646,094	12,007,664
Expenses					
Instruction	6,233,334	-	-	6,233,334	5,977,880
Student services	831,530	-	-	831,530	828,947
Administration	1,688,088	-	-	1,688,088	1,426,597
Fundraising	458,678	-	-	458,678	537,274
Total Expenses	9,211,630	-	-	9,211,630	8,770,698
Increase in Net Assets	1,484,283	1,943,549	6,632	3,434,464	3,236,966
Net Assets, beginning	9,921,214	6,538,270	6,362,561	22,822,045	19,585,079
Net Assets, ending	\$ 11,405,497	\$ 8,481,819	\$ 6,369,193	\$ 26,256,509	\$ 22,822,045

See accompanying notes to financial statements.

CAROLINA FRIENDS SCHOOL

STATEMENT OF CASH FLOWS

For Year Ended June 30, 2014
(With Comparative Totals for June 30, 2013)

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 3,434,464	\$ 3,236,966
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	213,526	202,951
Net realized and unrealized gains on investments	(2,126,291)	(1,596,780)
Change in liability under life estate	(44,149)	(42,248)
(Increase) decrease in operating assets:		
Accounts receivable - students	63,005	(35,834)
Accounts receivable - other	4,363	(12,390)
Prepaid expenses	22,220	40,793
Unconditional promises to give	84,707	379,625
Prepaid rent	7,059	7,058
Increase (decrease) in operating liabilities:		
Accounts payable	16,176	100,380
Accrued payroll	11,637	(311)
Unearned revenue	<u>21,631</u>	<u>1,719,312</u>
Net Cash Provided by Operating Activities	<u>1,708,348</u>	<u>3,999,522</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(1,442,995)	(1,898,736)
Proceeds from sale of investments	809,568	661,468
Purchases of investments	<u>(1,266,844)</u>	<u>(359,377)</u>
Net Cash Used in Investing Activities	<u>(1,900,271)</u>	<u>(1,596,645)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(191,923)	2,402,877
Cash and Cash Equivalents, beginning	<u>5,524,401</u>	<u>3,121,524</u>
Cash and Cash Equivalents, ending	<u><u>\$ 5,332,478</u></u>	<u><u>\$ 5,524,401</u></u>

See accompanying notes to financial statements.

CAROLINA FRIENDS SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES

For Year Ended June 30, 2014

	Program Services		Supporting Services		Total
	Instruction	Student Services	Administration	Fundraising	
Salaries	\$ 3,511,455	\$ 525,050	\$ 978,777	\$ 205,870	\$ 5,221,152
Operating supplies	525,373	120,857	129,857	64,497	840,584
Employee benefits and payroll taxes	961,164	74,397	291,113	41,541	1,368,215
Tuition remission	355,133	-	43,140	40,555	438,828
Physical plant repairs and maintenance	389,756	32,501	50,091	13,845	486,193
Professional service fees	47,297	1,200	81,278	73,838	203,613
Depreciation	174,203	27,983	12,266	6,133	220,585
Utilities	83,765	23,139	4,066	323	111,293
Printing	28,617	2,514	10,522	420	42,073
Insurance	43,266	7,243	3,175	1,587	55,271
Staff development and conferences	82,853	3,219	33,611	3,219	122,902
Communication	28,939	13,088	9,677	3,031	54,735
Postage	692	339	10,463	2,749	14,243
Dues and subscriptions	821	-	19,071	1,070	20,962
Bad debts	-	-	10,981	-	10,981
Total Functional Expenses	\$ 6,233,334	\$ 831,530	\$ 1,688,088	\$ 458,678	\$ 9,211,630

See accompanying notes to financial statements.

CAROLINA FRIENDS SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES

For Year Ended June 30, 2013

	Program Services		Supporting Services		Total
	Instruction	Student Services	Administration	Fundraising	
Salaries	\$ 3,454,559	\$ 424,471	\$ 763,734	\$ 249,450	\$ 4,892,214
Operating supplies	457,122	195,940	110,496	96,957	860,515
Employee benefits and payroll taxes	952,814	76,982	205,874	63,778	1,299,448
Tuition remission	315,861	-	64,157	35,702	415,720
Physical plant repairs and maintenance	341,152	39,723	35,957	9,841	426,673
Professional service fees	23,754	-	120,470	59,686	203,910
Depreciation	165,925	26,597	11,658	5,829	210,009
Utilities	80,657	24,606	4,442	390	110,095
Printing	18,003	11,548	6,543	4,130	40,224
Insurance	57,455	9,619	4,216	2,108	73,398
Staff development and conferences	84,034	5,636	18,519	2,508	110,697
Communication	23,951	13,467	10,239	2,734	50,391
Postage	1,464	358	6,755	3,056	11,633
Dues and subscriptions	1,129	-	13,537	1,105	15,771
Bad debts	-	-	50,000	-	50,000
Total Functional Expenses	\$ 5,977,880	\$ 828,947	\$ 1,426,597	\$ 537,274	\$ 8,770,698

See accompanying notes to financial statements.

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Carolina Friends School (the School) is a corporation organized exclusively for educational purposes conducted in a manner harmonious with the principles of the Religious Society of Friends (Quakers). The School operates in the Durham and Chapel Hill, North Carolina areas. Students come from a variety of backgrounds.

Accrual Basis

The financial statements of the School have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation

The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and have an original maturity of three months or less.

Investments

Investments in marketable securities are presented in the financial statements at fair market value based on readily available market quotes. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Accounts Receivable

Accounts receivable consist of tuition due from students. Accounts receivable are considered past due when payment is not received within 30 days from the date of the charge. Based on management's evaluation of uncollectible accounts receivable at the end of each year, bad debts are provided for on the allowance method. Accounts are written off when management determines the account to be completely uncollectible. The School offers several payment options under which interest is charged at various points in time. Under the semester payment plan, interest is added at a rate of 18% per year on past due balances. The 9-month payment plan includes interest at a rate of 5% per year.

Contributed Services

During the years ended June 30, 2014 and 2013, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. Many individuals volunteer their time and perform a variety of tasks that assist the School.

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *[cont'd]*

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a 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. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

Property and Equipment

Property and equipment is stated at cost if purchased, or fair market value at date of gift if donated. Renovations and significant improvements to existing structures are capitalized. Assets discarded or sold are removed from the accounts with the applicable allowance for depreciation. Minor replacements and repairs are expensed as incurred. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line basis.

Unearned Revenue

Tuition and fees collected in advance are recognized over the related school term, as well as, financial aid contributed to be used in future periods.

Advertising

Advertising cost is expensed as incurred. Advertising expense for the years ended June 30, 2014 and 2013, was \$57,312 and \$38,554, respectively.

Income Taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Based on all known facts and circumstances and current tax law, the School believes the total amount of uncertain income tax position liabilities and related accrued interest are not material to its financial position.

As of June 30, 2014 and including the previous three years considering extensions, the School's Form 990 is open and subject to examination by tax authorities with relevant jurisdiction. Should such an examination take place, management does not anticipate any significant issues related to the open years.

Comparative Financial Information

The prior-year summarized comparative information has been derived from the School's 2013 financial statements and in our report dated December 1, 2013, an unqualified opinion on those financial statements was expressed.

Endowment Funds

Endowment funds consist of funds legally restricted by donors and funds designated by the Board of Trustees to function as endowment funds.

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [cont'd]

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. PROMISES TO GIVE

Unconditional promises to give at June 30, 2014 and 2013, are as follows:

	2014	2013
Receivable in one year or less	\$ 91,959	\$ 45,178
Receivable in one to five years	<u>1,442,198</u>	<u>1,562,461</u>
Total unconditional promises to give	1,534,157	1,607,639
Less discount to present value (2%)	(42,900)	(56,275)
Less allowance for doubtful pledges (3% non-board or employee)	<u>(44,400)</u>	<u>(19,800)</u>
	<u><u>\$ 1,446,857</u></u>	<u><u>\$ 1,531,564</u></u>

3. INVESTMENTS

The following is a summary of investments classified by major type as of June 30, 2014 and 2013:

	2014	2013
Equities	\$ 3,183,786	\$ 2,559,419
Mutual funds	<u>8,061,464</u>	<u>6,602,265</u>
	<u><u>\$ 11,245,250</u></u>	<u><u>\$ 9,161,684</u></u>

Investment income for the years ended June 30, 2014 and 2013, consists of the following:

	2014	2013
Interest and dividend income	\$ 80,303	\$ 87,132
Net realized and unrealized gains on investments	<u>2,126,290</u>	<u>1,596,780</u>
	<u><u>\$ 2,206,593</u></u>	<u><u>\$ 1,683,912</u></u>

The School's investments are carried at fair market value. Due to market fluctuations, the stated values may vary. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Furthermore, due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

3. INVESTMENTS [cont'd]

Investment fees of \$73,838 and \$59,686 were incurred for the years ended June 30, 2014 and 2013, respectively, and are included under "Administration" in the accompanying statements of functional expenses.

4. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Codification are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liabilities;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2013.

Equities, Foreign Equities, Exchanged Traded Funds, and Real Estate Investment Trusts: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the net asset value (NAV) of shares held by the School at year end.

Money Market and Certificate of Deposits: Valued at the closing price reported on the active market.

Liability Under Life Estate: Discounted to approximate fair value.

Land Held for Investment: Fair value at date of gift.

Promises to Give, Net: Discounted to approximate fair value.

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

4. FAIR VALUE MEASUREMENTS *[cont'd]*

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

The following table sets forth by level, within the fair value hierarchy, the School's assets and liabilities at fair value as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Money market	\$ 114,425	\$ ---	\$ ---	\$ 114,425
Certificates of deposit	2,702,757	---	---	2,702,757
Mutual funds:				
Small Cap Social Fund	4,925,034	---	---	4,925,034
International Fund	3,136,430	---	---	3,136,430
Equities:				
Consumer Non-Durables	479,975	---	---	479,975
Consumer Services	261,035	---	---	261,035
Business Products & Services	291,207	---	---	291,207
Capital Goods	362,915	---	---	362,915
Industrial Electronics	174,850	---	---	174,850
Energy	266,539	---	---	266,539
Basic Industries	156,103	---	---	156,103
Technology	40,994	---	---	40,994
Financial	683,532	---	---	683,532
Utilities	34,559	---	---	34,559
Real Estate	110,209	---	---	110,209
Foreign equities	321,870	---	---	321,870
Liability under life estate	---	---	541,753	541,753
Land held for investment	---	---	71,225	71,225
Promises to give, net	---	---	1,446,857	1,446,857

Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of the School's Level 3 liabilities and assets for the year ended June 30, 2014:

	Liabilities	Promises
Balance , beginning of year	\$ 585,902	\$ 1,531,564
New pledges, payments, and changes in present value	(44,149)	(84,707)
Balance , end of year	<u>\$ 541,753</u>	<u>\$ 1,446,857</u>

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

4. FAIR VALUE MEASUREMENTS [cont'd]

The following table sets forth by level, within the fair value hierarchy, the School's assets and liabilities at fair value as of June 30, 2013:

	Level 1	Level 2	Level 3	Total
Money market	\$ 82,847	\$ ---	\$ ---	\$ 82,847
Certificates of deposit	2,202,757	---	---	2,202,757
Mutual funds:				
Small Cap Social Fund	3,947,522	---	---	3,947,522
International Fund	2,654,744	---	---	2,654,744
Equities:				
Consumer Non-Durables	379,557	---	---	379,557
Consumer Services	266,403	---	---	266,403
Business Products & Services	160,370	---	---	160,370
Capital Goods	332,354	---	---	332,354
Industrial Electronics	62,078	---	---	62,078
Energy	229,289	---	---	229,289
Basic Industries	110,927	---	---	110,927
Technology	57,829	---	---	57,829
Financial	725,193	---	---	725,193
Utilities	14,701	---	---	14,701
Commodities	22,035	---	---	22,035
Foreign equities	198,682	---	---	198,682
Liability under life estate	---	---	585,902	585,902
Land held for investment	---	---	71,225	71,225
Promises to give, net	---	---	1,531,564	1,531,564

Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of the School's Level 3 liabilities and assets for the year ended June 30, 2013:

	Liabilities	Promises
Balance , beginning of year	\$ 628,150	\$ 1,911,189
New pledges, payments, and changes in present value	(42,248)	(379,625)
Balance , end of year	<u>\$ 585,902</u>	<u>\$ 1,531,564</u>

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

5. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2014 and 2013, consist of the following:

	2014	2013
Land and land improvements	\$ 2,641,151	\$ 2,626,461
Buildings	7,508,098	7,414,824
Equipment	370,068	345,168
Construction in process	2,418,533	1,108,402
	12,937,850	11,494,855
Less accumulated depreciation	(3,345,724)	(3,132,198)
Net property and equipment	<u>\$ 9,592,126</u>	<u>\$ 8,362,657</u>

During the years ended August 31, 2002, 2005, 2008, and June 30, 2010, the School received contributions of real estate valued at \$470,000, \$207,000, \$890,000, and \$250,000, respectively. The donors reserved the exclusive possession and use of the property to themselves for their joint lifetimes. The real estate has been recorded in the statement of financial position at \$1,817,000. A corresponding liability of \$541,753 and \$585,902 at June 30, 2014 and 2013, respectively, has been recorded to reflect the transaction at the present value of the real estate. A risk-free interest rate and applicable mortality rates have been used in the calculations. The real estate and related liability are included in temporarily restricted net assets due to the time restrictions on the use of the real estate.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of gifts restricted for specific programs and capital expenditures, income from endowed investments, and land contributed to the School (see Note 5).

	2014	2013
Capital campaign gifts	\$ 4,780,801	\$ 4,458,478
Dividend and interest income	133,412	72,300
Realized and unrealized gains and losses	3,426,376	1,894,187
Other grants and funds	141,230	113,305
	<u>\$ 8,481,819</u>	<u>\$ 6,538,270</u>

7. PERMANENTLY RESTRICTED NET ASSETS

Since 1996, the School has conducted various capital campaigns for the purpose of funding operations, financing improvements, and increasing the endowment fund. Because donors were informed of how their contributions would be used, contributions received through the campaigns and used to fund the endowment are considered permanently restricted by the donors and are reported as such in the accompanying financial statements.

	2014	2013
Endowment Funds	<u>\$ 6,369,193</u>	<u>\$ 6,362,561</u>

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

8. AUXILIARY SERVICES

Auxiliary services income consists of fees charged for after-school activities and summer camp programs.

9. OPERATING LEASE COMMITMENTS

The School has a 35-year lease with Durham Friends Meeting for facilities that house the Durham Early School (DES), a program of the School. The School prepaid the entire lease which results in prepaid rent of approximately \$149,399 and \$156,458 for the years ended June 30, 2014 and 2013, respectively.

The School has a 30-year lease with Chapel Hill Friends Meeting for facilities that house the Chapel Hill Early School (CHES), a program of the School. The School paid \$50,000 for leasehold improvements over the term of the lease. The School agreed to pay all maintenance and repairs, as well as all operating costs, utilities, and insurance related to CHES.

10. PENSION PLAN

The School sponsors a contributory defined contribution pension plan covering all employees electing coverage after 2 years of service with the School, or with any nonprofit organization. The School contributes up to 5% of each participant's salary compensation. Effective September 1, 2009, for participants with 11 to 20 years of service and 20 plus years of service, the School will contribute up to 7% and 9%, respectively, of each participant's salary compensation. Employer contributions to the plan for the years ended June 30, 2014 and 2013, totaled approximately \$281,730 and \$269,835, respectively.

11. RELATED PARTY TRANSACTIONS

As a benefit of employment at the School, children of employees who attend the School are offered reduced tuition rates. The cost of this benefit is reflected in the accompanying financial statements as "tuition remission" expense.

12. CASH

Bank accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Whenever cash balances exceed the amount insured, there is a risk of monetary loss.

13. SUBSEQUENT EVENT

The School evaluated events occurring subsequent to the statement of financial position date through November 13, 2014, the date the financial statements were available to be issued.

CAROLINA FRIENDS SCHOOL

FINANCIAL STATEMENTS

Year Ended June 30, 2015

(With Comparative Totals for June 30, 2014)



DMJ & Co., PLLC

CAROLINA FRIENDS SCHOOL

June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Carolina Friends School
Durham, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Carolina Friends School (the School) which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements. The prior-year summarized comparative information has been derived from the School's 2014 financial statements and in our report dated November 13, 2014, we expressed an unmodified opinion on those statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2015, and the results of their operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DMJ & Co., PLLC

Certified Public Accountants
Greensboro, North Carolina

February 18, 2016

CAROLINA FRIENDS SCHOOL

FINANCIAL STATEMENTS

Year Ended June 30, 2015

(With Comparative Totals for June 30, 2014)

CAROLINA FRIENDS SCHOOL
STATEMENT OF FINANCIAL POSITION

June 30, 2015
(With Comparative Totals for June 30, 2014)

ASSETS

	<u>2015</u>	<u>2014</u>
Cash	\$ 5,490,640	\$ 5,332,479
Certificates of deposit	3,703,695	2,702,757
Accounts receivable, students (less reserve for uncollectible accounts of \$83,337 and \$70,000 in 2015 and 2014, respectively)	85,195	66,707
Accounts receivable, other	40,592	43,898
Prepaid expenses	78,087	43,991
Unconditional promises to give, net	757,201	1,446,857
Investments	10,491,843	11,245,250
Property and equipment, net (as restated for 2014)	10,681,883	9,691,666
Prepaid rent	142,341	149,399
Land held for investment	<u>71,225</u>	<u>71,225</u>
Total Assets	<u><u>\$ 31,542,702</u></u>	<u><u>\$ 30,794,229</u></u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 379,463	\$ 181,776
Accrued payroll	772,957	734,679
Unearned revenue	3,231,410	2,979,972
Liability under life estate	<u>495,616</u>	<u>541,753</u>
Total Liabilities	<u>4,879,446</u>	<u>4,438,180</u>
Net Assets		
Unrestricted (as restated for 2014)	13,249,775	11,505,037
Temporarily restricted	7,002,840	8,481,819
Permanently restricted	<u>6,410,641</u>	<u>6,369,193</u>
Total Net Assets	<u>26,663,256</u>	<u>26,356,049</u>
Total Liabilities and Net Assets	<u><u>\$ 31,542,702</u></u>	<u><u>\$ 30,794,229</u></u>

See accompanying notes to financial statements.

CAROLINA FRIENDS SCHOOL

STATEMENT OF ACTIVITIES

For Year Ended June 30, 2015
 (With Comparative Totals for June 30, 2014)

	2015				2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, Gains, and Other Support					
Tuition and fees, net of financial aid of \$903,616 and \$867,332 for 2015 and 2014, respectively	\$ 7,842,706	\$ -	\$ -	\$ 7,842,706	\$ 7,456,698
Auxiliary services	973,087	-	-	973,087	894,829
Private gifts, grants, and contracts	980,982	795,601	41,448	1,818,031	2,187,514
Dividends and interest income	19,892	69,540	-	89,432	80,302
Net realized and unrealized gain (loss) on investments	328,824	(403,910)	-	(75,086)	2,126,291
Net assets released from restrictions	1,940,210	(1,940,210)	-	-	-
Total Revenue, Gains, and Other Support	12,085,701	(1,478,979)	41,448	10,648,170	12,745,634
Expenses					
Instruction	6,500,799	-	-	6,500,799	6,233,334
Student services	885,427	-	-	885,427	831,530
Administration	1,778,462	-	-	1,778,462	1,688,088
Fundraising	1,176,275	-	-	1,176,275	458,678
Total Expenses	10,340,963	-	-	10,340,963	9,211,630
Increase (Decrease) in Net Assets	1,744,738	(1,478,979)	41,448	307,207	3,534,004
Net Assets, beginning, as restated	11,505,037	8,481,819	6,369,193	26,356,049	22,822,045
Net Assets, ending	\$ 13,249,775	\$ 7,002,840	\$ 6,410,641	\$ 26,663,256	\$ 26,356,049

See accompanying notes to financial statements.

CAROLINA FRIENDS SCHOOL

STATEMENT OF CASH FLOWS

For Year Ended June 30, 2015
(With Comparative Totals for June 30, 2014)

	2015	2014
Cash Flows from Operating Activities		
Increase in net assets	\$ 307,207	\$ 3,534,004
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	305,370	213,526
Net realized and unrealized (gain) loss on investments	75,086	(2,126,291)
Change in liability under life estate	(46,137)	(44,149)
In-kind contributions	(76,704)	(99,540)
(Increase) decrease in operating assets:		
Accounts receivable - students	(18,488)	63,005
Accounts receivable - other	3,306	4,363
Prepaid expenses	(34,096)	22,220
Unconditional promises to give	689,656	84,707
Prepaid rent	7,058	7,059
Increase (decrease) in operating liabilities:		
Accounts payable	197,687	16,176
Accrued payroll	38,278	11,637
Unearned revenue	251,438	21,631
Net Cash Provided by Operating Activities	<u>1,699,661</u>	<u>1,708,348</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(1,218,883)	(1,442,995)
Proceeds from sale of investments	1,883,140	809,568
Purchases of investments	<u>(2,205,757)</u>	<u>(1,266,844)</u>
Net Cash Used in Investing Activities	<u>(1,541,500)</u>	<u>(1,900,271)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	158,161	(191,923)
Cash and Cash Equivalents, beginning	<u>5,332,479</u>	<u>5,524,402</u>
Cash and Cash Equivalents, ending	<u><u>\$ 5,490,640</u></u>	<u><u>\$ 5,332,479</u></u>

See accompanying notes to financial statements.

CAROLINA FRIENDS SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES

For Year Ended June 30, 2015

	Program Services		Supporting Services		Total
	Instruction	Student Services	Administration	Fundraising	
Salaries	\$ 3,693,760	\$ 489,789	\$ 1,012,393	\$ 219,130	\$ 5,415,072
Operating supplies	514,757	207,336	110,102	37,197	869,392
Employee benefits and payroll taxes	956,293	54,418	296,386	37,532	1,344,629
Tuition remission	373,539	-	31,955	44,559	450,053
Physical plant repairs and maintenance	466,948	28,092	43,144	15,037	553,221
Professional service fees	12,394	12,624	172,641	10,893	208,552
Depreciation	241,815	38,344	16,807	8,404	305,370
Utilities	52,759	24,756	3,697	472	81,684
Printing	18,496	2,307	6,365	-	27,168
Insurance	38,033	6,031	2,644	1,322	48,030
Staff development and conferences	106,215	9,761	11,942	3,805	131,723
Communication	24,110	11,946	8,494	2,590	47,140
Postage	600	23	8,094	2,434	11,151
Dues and subscriptions	1,080	-	23,798	1,005	25,883
Bad debts	-	-	30,000	791,895	821,895
Total Functional Expenses	\$ 6,500,799	\$ 885,427	\$ 1,778,462	\$ 1,176,275	\$ 10,340,963

See accompanying notes to financial statements.

CAROLINA FRIENDS SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
For Year Ended June 30, 2014

	Program Services		Supporting Services		Total
	Instruction	Student Services	Administration	Fundraising	
Salaries	\$ 3,511,455	\$ 525,050	\$ 978,777	\$ 205,870	\$ 5,221,152
Operating supplies	525,373	120,857	129,857	64,497	840,584
Employee benefits and payroll taxes	961,164	74,397	291,113	41,541	1,368,215
Tuition remission	355,133	-	43,140	40,555	438,828
Physical plant repairs and maintenance	389,756	32,501	50,091	13,845	486,193
Professional service fees	47,297	1,200	81,278	73,838	203,613
Depreciation	167,144	27,983	12,266	6,133	213,526
Utilities	90,824	23,139	4,066	323	118,352
Printing	28,617	2,514	10,522	420	42,073
Insurance	43,266	7,243	3,175	1,587	55,271
Staff development and conferences	82,853	3,219	33,611	3,219	122,902
Communication	28,939	13,088	9,677	3,031	54,735
Postage	692	339	10,463	2,749	14,243
Dues and subscriptions	821	-	19,071	1,070	20,962
Bad debts	-	-	10,981	-	10,981
Total Functional Expenses	\$ 6,233,334	\$ 831,530	\$ 1,688,088	\$ 458,678	\$ 9,211,630

See accompanying notes to financial statements.

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Carolina Friends School (the School) is a corporation organized exclusively for educational purposes conducted in a manner harmonious with the principles of the Religious Society of Friends (Quakers). The School operates in the Durham and Chapel Hill, North Carolina areas. Students come from a variety of backgrounds.

Accrual Basis

The financial statements of the School have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation

The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and have an original maturity of three months or less.

Investments

Investments in marketable securities are presented in the financial statements at fair market value based on readily available market quotes. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Accounts Receivable

Accounts receivable consist of tuition due from students. Accounts receivable are considered past due when payment is not received within 30 days from the date of the charge. Based on management's evaluation of uncollectible accounts receivable at the end of each year, bad debts are provided for on the allowance method. Accounts are written off when management determines the account to be completely uncollectible. The School offers several payment options under which interest is charged at various points in time. Under the semester payment plan, interest is added at a rate of 18% per year on past due balances. The 9-month payment plan includes interest at a rate of 5% per year.

Contributed Services

During the years ended June 30, 2015 and 2014, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. Many individuals volunteer their time and perform a variety of tasks that assist the School.

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *[cont'd]*

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a 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. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

Property and Equipment

Property and equipment is stated at cost if purchased, or fair market value at date of gift if donated. Renovations and significant improvements to existing structures are capitalized. Assets discarded or sold are removed from the accounts with the applicable allowance for depreciation. Minor replacements and repairs are expensed as incurred. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line basis.

Unearned Revenue

Tuition and fees collected in advance are recognized over the related school term, as well as, financial aid contributed to be used in future periods.

Advertising

Advertising cost is expensed as incurred. Advertising expense for the years ended June 30, 2015 and 2014, was \$33,792 and \$57,312, respectively.

Income Taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Based on all known facts and circumstances and current tax law, the School believes the total amount of uncertain income tax position liabilities and related accrued interest are not material to its financial position.

As of June 30, 2015 and including the previous three years considering extensions, the School's Form 990 is open and subject to examination by tax authorities with relevant jurisdiction. Should such an examination take place, management does not anticipate any significant issues related to the open years.

Comparative Financial Information

The prior-year summarized comparative information has been derived from the School's 2014 financial statements and in the auditor's report dated November 13, 2014, an unmodified opinion on those financial statements was expressed.

Endowment Funds

Endowment funds consist of funds legally restricted by donors and funds designated by the Board of Trustees to function as endowment funds.

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [cont'd]

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. PROMISES TO GIVE

Unconditional promises to give at June 30, 2015 and 2014, are as follows:

	2015	2014
Receivable in one year or less	\$ 162,816	\$ 91,959
Receivable in one to five years	650,871	1,442,198
Total unconditional promises to give	813,687	1,534,157
Less discount to present value (2%)	(17,986)	(42,900)
Less allowance for doubtful pledges (3% non-board or employee)	(38,500)	(44,400)
	<u>\$ 757,201</u>	<u>\$ 1,446,857</u>

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Conditional promises to give are not recognized in the financial statements until the conditions are substantially met.

As of June 30, 2015, conditional promises to give were \$350,000. This consisted of one pledge for \$350,000 to the Building Friends campaign. The pledge was made contingent upon the Board of Trustees approving a financing plan for the Performing Arts Center project to move forward with groundbreaking before the end of 2015. As of February 18, 2016, the date the financial statements were available to be issued, the Board agreed to move the project forward with financing; however, no financing agreement was signed, nor did any groundbreaking occur.

3. INVESTMENTS

The following is a summary of investments classified by major type as of June 30, 2015 and 2014:

	2015	2014
Equities	\$ 3,229,402	\$ 3,183,786
Mutual funds	7,262,441	8,061,464
	<u>\$ 10,491,843</u>	<u>\$ 11,245,250</u>

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

3. INVESTMENTS *[cont'd]*

Investment income for the years ended June 30, 2015 and 2014, consists of the following:

	2015	2014
Interest and dividend income	\$ 89,432	\$ 80,302
Net realized and unrealized gains (losses) on investments	<u>(75,086)</u>	<u>2,126,291</u>
	<u>\$ 14,346</u>	<u>\$ 2,206,593</u>

The School's investments are carried at fair market value. Due to market fluctuations, the stated values may vary. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Furthermore, due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statement of financial position.

Investment fees of \$78,344 and \$73,838 were incurred for the years ended June 30, 2015 and 2014, respectively, and are included under "Administration" in the accompanying statement of functional expenses.

4. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Codification establishes a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Codification are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liabilities;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. FAIR VALUE MEASUREMENTS [cont'd]

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2015.

Equities and Foreign Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the net asset value (NAV) of shares held by the School at year end.

Money Market and Certificate of Deposits: Valued at the closing price reported on the active market.

Liability Under Life Estate: Discounted to approximate fair value.

Land Held for Investment: Fair value at date of gift.

Promises to Give, Net: Discounted to approximate fair value.

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

The following table sets forth by level, within the fair value hierarchy, the School's assets and liabilities at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Money market	\$ 102,873	\$ ---	\$ ---	\$ 102,873
Certificates of deposit	3,703,695	---	---	3,703,695
Mutual funds:				
Small Cap Social Fund	4,220,415	---	---	4,220,415
International Fund	3,042,026	---	---	3,042,026
Equities:				
Consumer Non-Durables	413,323	---	---	413,323
Consumer Services	350,644	---	---	350,644
Business Products & Services	399,535	---	---	399,535
Capital Goods	225,530	---	---	225,530
Industrial Electronics	182,657	---	---	182,657
Energy	141,729	---	---	141,729
Basic Industries	177,614	---	---	177,614
Technology	141,956	---	---	141,956
Financial	776,074	---	---	776,074
Utilities	90,076	---	---	90,076
Real Estate	98,302	---	---	98,302
Foreign equities	231,962	---	---	231,962
Liability under life estate	---	---	495,616	495,616
Land held for investment	---	---	71,225	71,225
Promises to give, net	---	---	757,201	757,201

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. FAIR VALUE MEASUREMENTS [cont'd]

Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of the School's Level 3 liabilities and assets for the year ended June 30, 2015:

	<u>Liabilities</u>	<u>Promises</u>
Balance , beginning of year	\$ 541,753	\$ 1,446,857
New pledges, payments, and changes in present value	<u>(46,137)</u>	<u>(689,656)</u>
Balance , end of year	<u>\$ 495,616</u>	<u>\$ 757,201</u>

The following table sets forth by level, within the fair value hierarchy, the School's assets and liabilities at fair value as of June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market	\$ 114,425	\$ ---	\$ ---	\$ 114,425
Certificates of deposit	2,702,757	---	---	2,702,757
Mutual funds:				
Small Cap Social Fund	4,925,034	---	---	4,925,034
International Fund	3,136,430	---	---	3,136,430
Equities:				
Consumer Non-Durables	479,975	---	---	479,975
Consumer Services	261,035	---	---	261,035
Business Products & Services	291,206	---	---	291,206
Capital Goods	362,915	---	---	362,915
Industrial Electronics	174,849	---	---	174,849
Energy	266,539	---	---	266,539
Basic Industries	156,103	---	---	156,103
Technology	40,994	---	---	40,994
Financial	683,532	---	---	683,532
Utilities	34,559	---	---	34,559
Real Estate	110,209	---	---	110,209
Foreign equities	321,870	---	---	321,870
Liability under life estate	---	---	541,753	541,753
Land held for investment	---	---	71,225	71,225
Promises to give, net	---	---	1,446,857	1,446,857

Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of the School's Level 3 liabilities and assets for the year ended June 30, 2014:

	<u>Liabilities</u>	<u>Promises</u>
Balance , beginning of year	\$ 585,902	\$ 1,531,564
New pledges, payments, and changes in present value	<u>(44,149)</u>	<u>(84,707)</u>
Balance , end of year	<u>\$ 541,753</u>	<u>\$ 1,446,857</u>

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

5. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2015 and 2014, consist of the following:

	2015	2014
Land and land improvements	\$ 3,774,374	\$ 2,641,151
Buildings	9,514,271	7,508,098
Equipment	370,068	370,068
Construction in process, as restated for 2014	674,264	2,518,073
	14,332,977	13,037,390
Less accumulated depreciation	(3,651,094)	(3,345,724)
Net property and equipment, as restated for 2014	<u>\$ 10,681,883</u>	<u>\$ 9,691,666</u>

During the years ended August 31, 2002, 2005, 2008, and June 30, 2010, the School received contributions of real estate valued at \$470,000, \$207,000, \$890,000, and \$250,000, respectively. The donors reserved the exclusive possession and use of the property to themselves for their joint lifetimes. The real estate has been recorded in the statement of financial position at \$1,817,000. A corresponding liability of \$495,616 and \$541,753 at June 30, 2015 and 2014, respectively, has been recorded to reflect the transaction at the present value of the real estate. A risk-free interest rate and applicable mortality rates have been used in the calculations. The real estate and related liability are included in temporarily restricted net assets due to the time restrictions on the use of the real estate.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of gifts restricted for specific programs and capital expenditures, income from endowed investments, and land contributed to the School (see Note 5).

	2015	2014
Capital campaign gifts	\$ 4,340,059	\$ 4,780,801
Dividend and interest income	202,952	133,412
Realized and unrealized gains and losses	2,290,919	3,426,376
Other grants and funds	168,910	141,230
	<u>\$ 7,002,840</u>	<u>\$ 8,481,819</u>

7. PERMANENTLY RESTRICTED NET ASSETS

Since 1996, the School has conducted various capital campaigns for the purpose of funding operations, financing improvements, and increasing the endowment fund. Because donors were informed of how their contributions would be used, contributions received through the campaigns and used to fund the endowment are considered permanently restricted by the donors and are reported as such in the accompanying financial statements.

	2015	2014
Endowment Funds	<u>\$ 6,410,641</u>	<u>\$ 6,369,193</u>

CAROLINA FRIENDS SCHOOL
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

8. AUXILIARY SERVICES

Auxiliary services income consists of fees charged for after-school activities and summer camp programs.

9. OPERATING LEASE COMMITMENTS

The School has a 35-year lease with Durham Friends Meeting for facilities that house the Durham Early School (DES), a program of the School. The School prepaid the entire lease which results in prepaid rent of approximately \$142,341 and \$149,399 for the years ended June 30, 2015 and 2014, respectively.

The School has a 30-year lease with Chapel Hill Friends Meeting for facilities that house the Chapel Hill Early School (CHES), a program of the School. The School paid \$50,000 for leasehold improvements over the term of the lease. The School agreed to pay all maintenance and repairs, as well as all operating costs, utilities, and insurance related to CHES.

10. PENSION PLAN

The School sponsors a contributory defined contribution pension plan covering all employees electing coverage after 2 years of service with the School, or with any nonprofit organization. The School contributes up to 5% of each participant's salary compensation. Effective September 1, 2009, for participants with 11 to 20 years of service and 20 plus years of service, the School will contribute up to 7% and 9%, respectively, of each participant's salary compensation. Employer contributions to the plan for the years ended June 30, 2015 and 2014, totaled approximately \$290,175 and \$281,730, respectively.

11. RELATED PARTY TRANSACTIONS

As a benefit of employment at the School, children of employees who attend the School are offered reduced tuition rates. The cost of this benefit is reflected in the accompanying financial statements as "tuition remission" expense.

12. CASH

Bank accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Whenever cash balances exceed the amount insured, there is a risk of monetary loss.

13. PRIOR PERIOD ADJUSTMENT

An error resulting in an understatement of unrestricted net assets and construction in process was discovered for the year ended June 30, 2014. The effect of the restatement was an increase to the change in unrestricted net assets for June 30, 2014, of \$99,540.

14. SUBSEQUENT EVENT

The School evaluated events occurring subsequent to the statement of financial position date through February 18, 2016, the date the financial statements were available to be issued.

CAROLINA FRIENDS SCHOOL

FINANCIAL STATEMENTS

Year Ended June 30, 2016

(With Comparative Totals for June 30, 2015)

Statements prepared by management – Unaudited

CAROLINA FRIENDS SCHOOL
STATEMENT OF FINANCIAL POSITION

June 30, 2016
(With Comparative Totals for June 30, 2015)

ASSETS

	<u>2016</u>	<u>2015</u>
Cash	\$ 3,857,280	\$ 5,490,640
Certificates of deposit	3,204,966	3,703,695
Accounts Receivable, students (less reserve for uncollectible accounts of \$30,000 and \$83,337 in 2016 and 2015, respectively)	942,908	85,195
Accounts Receivable, other	50,055	40,592
Prepaid Expenses	48,002	78,087
Unconditional promises to give, net	722,580	757,201
Investments	9,931,423	10,491,843
Property and equipment, net	12,392,855	10,681,883
Prepaid rent	135,283	142,341
Land held for investment	<u>71,225</u>	<u>71,225</u>
Total Assets	<u><u>\$ 31,356,577</u></u>	<u><u>\$ 31,542,702</u></u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 157,661	\$ 379,463
Accrued payroll	528,460	772,957
Unearned revenue	3,824,869	3,231,410
Liability under life estate	<u>447,404</u>	<u>495,616</u>
Total Liabilities	<u>4,958,394</u>	<u>4,879,446</u>
Net Assets		
Unrestricted	15,049,558	13,249,775
Temporarily restricted	4,879,593	7,002,840
Permanently restricted	<u>6,469,032</u>	<u>6,410,641</u>
Total Net Assets	<u>26,398,183</u>	<u>26,663,256</u>
Total Liabilities and Net Assets	<u><u>\$ 31,356,577</u></u>	<u><u>\$ 31,542,702</u></u>

CAROLINA FRIENDS SCHOOL

STATEMENT OF ACTIVITIES

For Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue, Gains, and Other Support					
Tuition and fees, net of financial aid of \$1,006,037 and \$903,616 for 2016 and 2015, respectively	\$ 8,092,912	\$ -	\$ -	\$ 8,092,912	\$ 7,842,706
Auxiliary Services	1,030,537	-	-	1,030,537	973,087
Private gifts, grants, and contracts	424,138	505,023	58,391	987,552	1,818,031
Dividends and interest income	25,182	74,920	-	100,102	89,432
Gain (loss) on sales of property	(57,720)	-	-	(57,720)	-
Net realized and unrealized gain (loss) on investments	-	(529,875)	-	(529,875)	(75,086)
Net assets releases from restrictions	2,173,315	(2,173,315)	-	-	
Total Revenue, Gains, and Other Support	<u>11,688,365</u>	<u>(2,123,247)</u>	<u>58,391</u>	<u>9,623,508</u>	<u>10,648,170</u>
Expenses					
Instruction	6,871,234	-	-	6,871,234	6,500,799
Student Services	1,048,870	-	-	1,048,870	885,427
Administration	1,648,867	-	-	1,648,867	1,778,462
Fundraising	319,610	-	-	319,610	1,176,275
Total Expenses	<u>9,888,581</u>	<u>-</u>	<u>-</u>	<u>9,888,581</u>	<u>10,340,963</u>
Increase (Decrease) in Net Assets	1,799,784	(2,123,247)	58,391	(265,073)	307,207
Net Assets, beginning	<u>13,249,774</u>	<u>7,002,841</u>	<u>6,410,641</u>	<u>26,663,256</u>	<u>26,356,049</u>
Net Assets, ending	<u>\$ 15,049,558</u>	<u>\$ 4,879,594</u>	<u>\$ 6,469,032</u>	<u>\$ 26,398,183</u>	<u>\$ 26,663,256</u>

CAROLINA FRIENDS SCHOOL

STATEMENT OF CASH FLOWS

For Year Ended June 30, 2016
(With Comparative Totals for June 30, 2015)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ (265,073)	\$ 307,207
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	366,480	305,370
Net realized and unrealized (gain) loss on investments	529,875	75,086
Net loss on disposal of asset	57,720	-
Change in liability under life estate	(48,212)	(46,137)
In-Kind contributions	-	(76,704)
(Increase) decrease in operating assets:		
Accounts receivable - students	(857,713)	(18,488)
Accounts receivable - other	(9,463)	3,306
Prepaid expenses	30,085	(34,096)
Unconditional promises to give	34,621	689,656
Prepaid rent	7,058	7,058
Increase (decrease) in operating liabilities:		
Accounts payable	(221,802)	197,687
Accrued payroll	(244,497)	38,278
Unearned revenue	593,459	251,438
Net Cash Provided (used) by Operating Activities	<u>(27,463)</u>	<u>1,699,661</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(2,136,172)	(1,218,883)
Proceeds from disposal of assets	1,000	-
Proceeds from sale of investments	2,463,739	1,883,140
Purchases of investments	(1,934,464)	(2,205,757)
Net Cash Used in Investing Activities	(1,605,897)	(1,541,500)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,633,360)	158,161
Cash and Cash Equivalents, beginning	<u>5,490,640</u>	<u>5,332,479</u>
Cash and Cash Equivalents, ending	<u><u>\$ 3,857,280</u></u>	<u><u>\$ 5,490,640</u></u>

CAROLINA FRIENDS SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES

For Year Ended June 30, 2016

	Program Services		Support Services		Total
	Instruction	Student Services	Administration	Fund Raising	
Salaries	\$ 3,887,035	\$ 494,933	\$ 877,933	\$ 181,173	\$ 5,441,073
Operating supplies	562,119	324,028	100,384	27,050	1,013,581
Employee benefits and payroll taxes	1,073,007	63,049	287,646	56,522	1,480,224
Tuition remission	377,992	-	32,986	48,197	459,175
Physical plant repairs & maintenance	378,176	57,670	22,827	7,456	466,129
Professional service fees	6,006	14,632	220,813	800	242,252
Depreciation	293,270	44,168	19,360	9,680	366,480
Utilities	79,760	20,898	2,649	192	103,500
Printing	18,154	1,553	4,968	-	24,674
Insurance	41,111	6,192	2,714	1,357	51,374
Staff development and conferences	114,396	10,208	13,693	5,064	143,361
Communications	38,625	11,467	8,515	2,665	61,271
Postage	496	71	5,628	1,339	7,533
Dues and subscriptions	1,086	-	25,910	-	26,996
Bad debts	-	-	22,843	(21,885)	959
Total Functional Expenses	\$ 6,871,234	\$ 1,048,870	\$ 1,648,867	\$ 319,610	\$ 9,888,581

CAROLINA FRIENDS SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

For Year Ended June 30, 2015

	Program Services		Support Services		Total
	Instruction	Student Services	Administration	Fund Raising	
Salaries	\$ 3,693,760	\$ 489,789	\$ 1,012,393	\$ 219,130	\$ 5,415,072
Operating supplies	514,757	207,336	110,102	37,197	869,392
Employee benefits and payroll taxes	956,293	54,418	296,386	37,532	1,344,629
Tuition remission	373,539	-	31,955	44,559	450,053
Physical plant repairs & maintenance	466,948	28,092	43,144	15,037	553,221
Professional service fees	12,394	12,624	172,641	10,893	208,552
Depreciation	241,815	38,344	16,807	8,404	305,370
Utilities	52,759	24,756	3,697	472	81,684
Printing	18,496	2,307	6,365	-	27,168
Insurance	38,033	6,031	2,644	1,322	48,030
Staff development and conferences	106,215	9,761	11,942	3,805	131,723
Communications	24,110	11,946	8,494	2,590	47,140
Postage	600	23	8,094	2,434	11,151
Dues and subscriptions	1,080	-	23,798	1,005	25,883
Bad debts	-	-	30,000	791,895	821,895
Total Functional Expenses	\$ 6,500,799	\$ 885,427	\$ 1,778,462	\$ 1,176,275	\$ 10,340,963

APPENDIX D

FORM OF BOND COUNSEL OPINION

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October __, 2016

Public Finance Authority
Madison, Wisconsin

\$5,310,000
Public Finance Authority
Educational Facilities Revenue Bonds
(Carolina Friends School), Series 2016

Ladies and Gentlemen:

We have acted as bond counsel to the Public Finance Authority (the “*Authority*”) in connection with the authorization, issuance and sale of the above-referenced bonds (the “*Bonds*”). Each capitalized term used but not otherwise defined herein has the meaning given to such term in the Bond Documents (as defined below).

In connection with this opinion, we have examined fully-executed originals, or copies certified to our satisfaction, of the following documents (collectively, the “*Bond Documents*”):

1. Indenture of Trust, dated as of October 1, 2016 (the “*Indenture*”), between the Authority and Wilmington Trust, National Association, as trustee (the “*Trustee*”);
2. the Bonds;
3. Loan Agreement, dated as of October 1, 2016 (the “*Loan Agreement*”), between the Issuer and The Carolina Friends School (the “*Borrower*”); and
4. a Promissory Note dated October __, 2016 (the “*Note*”) of the Borrower, payable to the Authority in the original principal amount of \$5,300,000, which the Authority has assigned to the Trustee.

As to questions of fact material to the opinions hereinafter expressed, we have relied on representations of the Authority and the Borrower contained in the Bond Documents and certain other documents related thereto (including representations as to the status of the Borrower as an organization exempt from federal income tax as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “*Code*”)), the certified proceedings and other certifications of public officials and others furnished to us, including certifications furnished to us by or on behalf of the Borrower, without undertaking to verify the same by independent investigation. We have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the

genuineness of the signatures appearing in such public records, certifications, and documents and proceedings.

As to the opinions given in paragraphs 1 and 2 below, we have, with your express permission, relied on the opinion of von Briesen & Roper, s.c., counsel to the Authority, dated the date hereof and addressed to us, with respect to the (1) Authority's due authorization, execution and delivery of the Bond Documents to which it is a party and the enforceability of the Bond Documents against the Authority, (2) its governmental status and authority, (3) its due adoption of the resolution providing for the issuance of the Bond and other matters and (4) its valid issuance of the Bond.

In connection with this opinion, we also have examined originals, or copies identified to our satisfaction, of such other documents, instruments, certificates and records as we have considered appropriate in order to render our opinions contained herein. Where we have considered it appropriate, as to certain facts we have relied, without investigation or analysis of any underlying data contained therein, upon certificates or other comparable documents of public officials or other appropriate representatives of the Borrower and the Authority.

In rendering the opinions set forth herein, we have assumed, among other things, the legal capacity of all natural persons, the genuineness of all signatures not signed in our presence, the authenticity of all documents submitted to us as originals, that all documents submitted to us as copies conform with the originals thereof, that the Bond Documents fully state the agreement among the parties thereto, and that the Bond Documents constitute the legal, valid and binding obligation of the parties thereto other than the Borrower and the Authority, respectively, enforceable in accordance with their respective terms.

Based on and subject to the foregoing and the further limitations and qualifications hereinafter expressed, it is our opinion that:

1. The Authority has authorized the execution, delivery and performance of the Bond Documents to which it is a party by all necessary action and has duly executed and delivered each of the Bond Documents to which it is a party. Each of the Bond Documents to which the Authority is a party constitutes the legal, valid and binding obligation of the Authority, enforceable in accordance with its terms.

2. The Bonds have been validly issued in accordance with the provisions of Section 66.0304 of the Wisconsin Statutes and is a valid and binding limited obligation of the Authority, payable by it solely from the money and assets received from the Borrower pursuant to the Loan Agreement and the Note. The Bonds are entitled to the benefits and security of the Indenture for the payment thereof in accordance with the terms of the Indenture.

3. Interest on the Bond is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Authority and the Borrower comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bond in order that the interest on the Bond be, or continue to be, excludable from gross income for federal income tax purposes. The Authority and the Borrower have covenanted to comply with all such requirements. Failure to comply with certain of such

requirements may cause interest on the Bond to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bond. Except as described herein, we express no opinion regarding other federal tax consequences arising with respect to the Bond.

It is to be understood that the rights of the owners of the Bond and the enforceability of the Bond and the Bond Documents may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, liquidation, readjustment of debt and other similar laws affecting creditors' rights and remedies generally, and by general principles of equity, whether such principles are considered in a proceeding at law or in equity.

The opinions set forth herein are limited to matters governed by the laws of the State of North Carolina, the federal laws of the United States and, as to the opinions given in paragraphs 1 and 2 above, the laws of the State of Wisconsin. No opinion is expressed herein as to the laws of any other jurisdiction (including the laws of any counties, municipalities or other subdivision or instrumentalities of the State of North Carolina, the State of Wisconsin or any other jurisdiction).

We express no opinions herein relating to the financial resources of, or the creditworthiness of, the Borrower, or any other matters relating to an evaluation of the likelihood or the ability of the Borrower to make the payments under Loan Agreement and the Note. In addition, we express no opinions herein relating to the accuracy or completeness of any information, including the Preliminary Official Statement or the Official Statement relating to the Bonds, that may have been relied on by anyone in making the decision to purchase the Bonds.

Our opinions expressed herein are as of the date hereof, and we undertake no obligation to advise you of any changes of applicable law or any other matters that may come to our attention after the date hereof that may affect our opinions expressed herein.

Very truly yours,

PARKER POE ADAMS & BERNSTEIN LLP

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APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING

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APPENDIX E

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by and between The Carolina Friends School (the “School”) and Wilmington Trust, National Association, as dissemination agent (including any successor, the “Dissemination Agent”) in connection with the issuance by the Public Finance Agency (the “Issuer”) of its \$5,310,000 Educational Facilities Revenue Bonds (Carolina Friends School), Series 2016 (the “Bonds”). The proceeds of the Bonds are being used by the School: (i) to finance the acquisition, construction and equipping of a new performing arts center and other capital improvements on the main campus of the School, (ii) fund a debt service reserve fund, and (iii) pay the costs of issuance of the Bonds. The School and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement Representation. This Disclosure Agreement is being executed and delivered by the School and the Dissemination Agent for the benefit of the Bondowners (defined below) and in order to assist the Participating Underwriter (defined below) in complying with the Rule (defined below). The School and the Dissemination Agent acknowledge that the Issuer 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.

Section 2. Definitions. In addition to the definitions set forth in 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 the School 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 the School.

“Dissemination Agent” shall mean any Dissemination Agent or successor Dissemination Agent designated in writing by the School and which has filed with the School, the Trustee and the Issuer written acceptance of such designation. The same entity may serve as both Trustee and Dissemination Agent. The initial Dissemination Agent shall be Wilmington Trust, National Association. In the absence of a third-party Dissemination Agent, the School shall serve as Dissemination Agent.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB, currently located at <http://emma.msrb.org>.

“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 contemplated by this Disclosure Agreement. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through EMMA.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” means the United States Securities and Exchange Commission.

Section 3. Provision of Annual Reports.

(a) The School shall provide (i) not later than one hundred fifty (150) days after the close of its fiscal year to EMMA and to the Trustee, an Annual Report, which shall consist of a copy of the School's audited financial statements, prepared in accordance with generally accepted accounting principles.

(b) Updates of the operating data substantially of the type contained in the tables in Appendix A to the Official Statement relating to the Bonds, dated October 14, 2016, listed below (excluding, however, any projections or estimates contained therein):

- A. Admission Statistics (Early Schools)
- B. Admission Statistics (Lower School)
- C. Admission Statistics (Middle School)
- D. Admission Statistics (Upper School)
- E. Historical Tuition by Program
- F. A calculation of the Debt Service Coverage Ratio for the fiscal year then ended.

(c) the School shall, in a timely manner, provide the MSRB and the Trustee notice of failure by the School to file any Annual Report by the date due.

Section 4. Reporting of Listed Events.

(a) The School shall give notice, in accordance with subsection 4(b) below, of the occurrence of any of the following events with respect to the Bonds:

- (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 IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other

material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

- (7) modifications to rights of the Bondowners, if material;
- (8) Bond calls, if material;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) tender offers;
- (13) bankruptcy, insolvency, receivership or similar event of the School¹;
- (14) the consummation of a merger, consolidation, or acquisition of the School, the sale of all or substantially all of the assets of the School, 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; or
- (15) appointment of a successor or additional trustee, or the change of name of a trustee, if material;

provided, that nothing in this subsection (a) shall require the School to maintain any debt service reserve, credit enhancement or credit or liquidity providers with respect to the Bonds or to pledge any property as security for repayment of the Bonds except as otherwise required by the Agreement.

(b) The School shall file, or cause the Dissemination Agent to file to EMMA in a timely manner not in excess of ten (10) business days after the occurrence thereof, a notice of the occurrence of any of the events described in subsection 4(a) above. The School shall provide a copy of each such notice to the Issuer, the Trustee and the Dissemination Agent. The Dissemination Agent, if other than the School, shall have no duty to file a notice of a Listed Event described hereunder unless it is directed to do so by the School, 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 5. 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.

¹For purposes of the event identified in Section 5(a)(13) above, the event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the School in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Institution, 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 (ii) 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 the School

Section 6. Termination of Reporting Obligation. The School'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 Dissemination Agent of an opinion of counsel expert in federal securities laws selected by the School and acceptable to the Dissemination Agent to the effect that compliance with this Disclosure Agreement no longer is required by the Rule. If the School'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 the School and the original institution shall have no further responsibility hereunder.

The purpose of the School's undertaking is to conform to the requirements of the Rule and not to create new contractual or other rights for the Trustee, the Participating Underwriter, any Bondowner, any municipal securities broker or dealer, any potential purchaser of Bonds, the SEC or any other person, other than as specifically provided in this Disclosure Agreement.

Section 7. Dissemination Agent. The School may, from time to time, with notice to the Trustee and the Issuer 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 Issuer, discharge any such third-party Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if other than the School) may resign upon thirty (30) days' written notice to the School, the Trustee and the Issuer.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the School and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the School provided that the Dissemination Agent may but shall not be required to agree to any amendment that affects the Dissemination Agent's rights, duties or immunities hereunder) 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 the School and the Dissemination Agent to the effect that such amendment or waiver would not, in and of itself, violate the Rule. Without limiting the foregoing, the School and the Dissemination Agent 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 identity, nature or status of the School or of the type of business conducted by the School; (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 Dissemination Agent determines, or the Dissemination Agent receives an opinion of counsel expert in federal securities laws and acceptable and addressed to the Dissemination Agent to the effect that, the amendment does not materially impair the interest of the Bondowners, or (ii) the amendment is consented to by the Bondowners as though it were an amendment to the Agreement as permitted by Section 1101 of the Agreement. The Annual Report 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. If an amendment is made to an undertaking specifying the accounting principles to be followed in preparing the financial statements, the Annual Report for the year in which the change is made should present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The Dissemination Agent shall not 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 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the School 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 specifically required by this Disclosure Agreement. If the School 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, the School 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 10. Default. In the event of a failure of the School to comply with any provision of this Disclosure Agreement, the Dissemination Agent may, and at the request of the Participating Underwriter or 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 the School 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 the School 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 Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the School or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance. In no event shall the School or the Dissemination Agent be liable for monetary damages in the event of a default under this Disclosure Agreement.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent (if other than the School) shall have only such duties as are specifically set forth in this Disclosure Agreement. The School agrees to indemnify and save the Dissemination Agent and its respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the School under this Section shall survive resignation or removal of the Dissemination Agent and defeasance, redemption or payment of the Bonds. The School covenants that whenever it is serving as Dissemination Agent, it shall take any action required of the Dissemination Agent under this Disclosure Agreement. The Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the School has provided such information to the Dissemination Agent as required by this Disclosure Agreement. The Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Dissemination Agent shall have no duty or obligation to review or verify any Annual Report, the audited financial statements of the School, Listed Events or any other information, disclosures or notices provided to it by the School and shall not be deemed to be acting in any fiduciary capacity for the School, the Bondowners or any other party. The Dissemination Agent shall have no responsibility for the School's failure to report a Listed Event to the Dissemination Agent. The Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the School has complied with this Disclosure Agreement. The Dissemination Agent may conclusively rely upon certifications of the School at all times.

(b) The Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and the Dissemination Agent shall in no event incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The fees and expenses of such counsel shall be payable by the School.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the School, the Dissemination Agent, the Participating Underwriter, and the Bondowners from time to time, and shall create no rights in any other person or entity.

Section 13. Disclaimer. No Annual Report or notice of a Listed Event filed by or on behalf of the School under this Disclosure Agreement shall obligate the School 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 the School or raise any inference that no other material events have occurred with respect to the School or the Bonds or that all material information regarding the School or the Bonds has been disclosed. The School shall have no obligation under this Disclosure Agreement to update information provided pursuant to this Disclosure Agreement except as specifically stated herein.

Section 14. Fees and Expenses of Dissemination Agent. The School agrees (1) to pay to the Dissemination Agent from time to time reasonable compensation for services rendered hereunder and (2) to reimburse the Dissemination Agent for all reasonable expenses and disbursements, including reasonable compensation, expenses and disbursements of its agents and counsel.

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. Notices. Unless otherwise expressly provided, all notices to the School, the Issuer and the Dissemination Agent shall be in writing and shall be deemed sufficiently given if sent by registered or certified mail, postage prepaid, or e-mail, or delivered during business hours to such parties at the address specified in Section 1103 of the Agreement or, as to all of the foregoing, to such other address as the addressee shall have indicated by prior written notice to the one giving notice.

Section 17. Governing Law. This Disclosure Agreement shall be governed by the internal laws of the State of North Carolina.

[Remainder intentionally left blank.]

Dated as of October 20, 2016

THE CAROLINA FRIENDS SCHOOL

By: _____
Name:
Title:

WILMINGTON TRUST, NATIONAL
ASSOCIATION, as Dissemination Agent

By: _____
Name:
Title:

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APPENDIX F

BOOK ENTRY ONLY SYSTEM

Unless otherwise noted, the following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2016 Bonds, payment of interest and other payments on the Series 2016 Bonds to Participants or Beneficial Owners (as such terms are defined below) of the Series 2016 Bonds, confirmation and transfer of beneficial ownership interests in the Series 2016 Bonds and other Series 2016 Bond-related transactions by and between DTC, Participants and Beneficial Owners of the Series 2016 Bonds is based solely on information furnished by DTC to the Issuer for inclusion herein. Accordingly, the Issuer, the Borrower and the Underwriter do not and cannot make any independent representations concerning these matters.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Series 2016 Bonds, each in the aggregate principal amount of that maturity of Bonds, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 Issuer 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).

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

With regard to Bonds registered in the name of Cede & Co., as nominee of DTC, the Issuer, the Borrower, and the Trustee will have no responsibility or obligation to any Direct Participant or to any Indirect Participant. Without limiting the preceding sentence, the Issuer, the Borrower and the Trustee will have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede &

Co., or any Direct Participant or Indirect Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Direct Participant or Indirect Participant or any other person, other than Cede & Co., as nominee of DTC, of any notice with respect to the Bonds, including any notice of redemption, (iii) the payment to any Direct Participant or Indirect Participant or any person, other than Cede & Co., as nominee of DTC, of any amount with respect to principal of, premium, if any, or interest on, the Bonds or (iv) any consent given by Cede & Co., as nominee of DTC, as registered owner of the Bonds.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Borrower believes to be reliable, but neither the Issuer nor the Borrower take responsibility for the accuracy thereof.

The Issuer, the Underwriter and the Borrower cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, redemption price and interest with respect to the Series 2016 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices, notices of mandatory tender or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the Issuer, the Underwriter or the Borrower is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2016 Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Series 2016 Bonds, payment of principal, redemption price and interest with respect to the Series 2016 Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Series 2016 Bonds and other related transactions by and between DTC, the Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the Participants, as the case may be.

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