

*In the opinion of Ballard Spahr LLP, Bond Counsel, interest on the Bonds is excludable from gross income for purposes of federal income tax, assuming continuing compliance with the requirements of the federal tax laws. Interest on the Bonds is not a preference item for purposes of either individual or corporate federal alternative minimum tax; however, interest paid to corporate holders of the Bonds may be indirectly subject to alternative minimum tax under circumstances described under "TAX MATTERS" herein. Bond Counsel is also of the opinion that, under the laws of the Commonwealth of Pennsylvania, interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax, and the Bonds are exempt from personal property taxes in Pennsylvania. See "TAX MATTERS" herein.*



**\$19,000,000**  
**MONTGOMERY COUNTY HIGHER EDUCATION  
 AND HEALTH AUTHORITY**  
 (Commonwealth of Pennsylvania)  
**Variable Rate Revenue Bonds**  
**(AICUP Financing Program – Gwynedd Mercy University Project)**  
**Series 2017 V1**

**Dated: Date of Delivery**

**Due: May 1, as shown on inside cover**

The Montgomery County Higher Education and Health Authority (the "Authority") will issue the Variable Rate Revenue Bonds (AICUP Financing Program – Gwynedd Mercy University Project) Series 2017 V1 (the "Bonds") initially in denominations of \$100,000 and any whole multiple of \$5,000 in excess thereof. The Bonds will be registered in the name of Cede & Co. as the registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. The principal of and premium, if any, on the Bonds will be payable to the registered owner at the designated corporate trust agency office of The Bank of New York Mellon Trust Company, N.A., Philadelphia, Pennsylvania, as trustee (the "Trustee") for the Bonds, or the designated corporate trust office of any successor Trustee.

On April 27, 2017, the Authority issued for the benefit of Gwynedd Mercy University (the "Borrower"), another series of bonds, designated Revenue Bonds (AICUP Financing Program – Gwynedd Mercy University Project) Series 2017 PP2 (the "Fixed Rate Bonds"), which are described in, and were offered for sale pursuant to, a separate official statement. The Fixed Rate Bonds were issued as fixed rate bonds in the aggregate principal amount of \$12,910,000. The Fixed Rate Bonds are not secured by the Letter of Credit that will initially secure the Bonds.

The Bonds will bear interest at a Weekly Rate, a Libor-CUBBS<sup>SM</sup> Rate or a Term Rate, as described herein, as determined in accordance with the Trust Indenture dated as of April 1, 2017 between the Authority and the Trustee (the "Indenture") pursuant to which the Bonds are issued and secured. Initially, the Bonds are expected to be in a Weekly Mode. While the Bonds bear interest at a Weekly Rate or a Libor-CUBBS Rate, interest will be payable monthly on the first Business Day of each calendar month, and while the Bonds bear interest at a Term Rate, interest will be payable semiannually on May 1 and November 1, in each case by the Trustee to the registered owners by check, or by wire transfer at the request of holders of at least \$1,000,000 aggregate principal amount of the Bonds. The Weekly Rate will never exceed 10% per annum, the Libor-CUBBS Rate will never exceed 20% per annum, and the Term Rate will never exceed 15% per annum.

The Bonds are payable solely from, and are secured by an assignment and a pledge of, payments and other revenues to be received by the Authority under a Loan Agreement between the Authority and the Borrower, and from Bond proceeds and other moneys pledged to or held by the Trustee under the Indenture for such purpose, and, from the date of original issuance of the Bonds through the expiration date described below, from funds drawn by the Trustee under an irrevocable, direct pay Letter of Credit, issued by

**TD Bank, N.A.**

(the "Bank").

The Letter of Credit will permit the Trustee to draw, subject to the terms and conditions thereof, and only while the Bonds are in the Weekly Mode, (a) an amount equal to the outstanding principal amount of the Bonds to pay (i) the principal amount of the Bonds when due at maturity, upon redemption or acceleration and (ii) the portion of the purchase price of Bonds tendered to it and not remarketed corresponding to the principal amount of the Bonds, plus (b) an amount equal to 37 days' interest on the Bonds at the rate of 10% per annum to pay (i) interest on the Bonds when due and (ii) the portion of the purchase price of Bonds tendered to the Trustee and not remarketed corresponding to the accrued interest on the Bonds. The Letter of Credit will terminate on the expiration date shown on the inside cover, or on the earlier occurrence of certain events described herein, and may be extended or replaced as described herein.

Bonds in the Weekly Mode will be purchased, at the option of the holder thereof, at the principal amount thereof, plus accrued interest, if any, at the times and subject to the conditions described herein. The Bonds are subject to optional, mandatory and extraordinary optional redemption by the Authority prior to maturity as described herein. The interest rate mode for the Bonds is subject to conversion as described herein, in which case the Bonds will be subject to mandatory purchase as described herein.

**THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM THE SOURCES REFERRED TO IN THE INDENTURE PURSUANT TO WHICH SUCH BONDS ARE ISSUED AND SECURED, AND THE BONDS SHALL NOT BE OR BE DEEMED TO BE A GENERAL OBLIGATION OF THE AUTHORITY OR AN OBLIGATION OF MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF. NEITHER MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF IS OR SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR PURCHASE PRICE OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS, AND NEITHER THE GENERAL CREDIT OF THE AUTHORITY NOR THE FAITH AND CREDIT OR TAXING POWER OF MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO SUCH PAYMENT. THE AUTHORITY HAS NO TAXING POWER.**

The Bonds are offered when, as and if issued by the Authority, subject to prior sale, withdrawal or modification of the offer without any notice, and to the approving opinion of Ballard Spahr LLP, Philadelphia, Pennsylvania, Bond Counsel. Certain legal matters will be passed upon by Law Offices of Douglas B. Breidenbach, Pottstown, Pennsylvania, as counsel to the Authority; by Schubert, Gallagher, Tyler & Mulcahey, Philadelphia, Pennsylvania, as counsel to the Borrower; and by Campbell & Levine, LLC, Pittsburgh, Pennsylvania, as counsel to the Underwriter. Certain legal matters with respect to the Letter of Credit will be passed upon for the Bank by its counsel, Murphy Sullivan Kronk, Burlington, Vermont. It is expected that Bonds in definitive form will be delivered to DTC in New York, New York, on or about May 1, 2017.

**George K. Baum & Company**

The date of this Official Statement is April 27, 2017.

CUBBS<sup>SM</sup> is a service mark of the Association of Independent Colleges and Universities of Pennsylvania.

**MONTGOMERY COUNTY HIGHER EDUCATION AND HEALTH AUTHORITY**  
**(Commonwealth of Pennsylvania)**  
**VARIABLE RATE REVENUE BONDS**  
**(AICUP FINANCING PROGRAM - GWYNEDD MERCY UNIVERSITY PROJECT)**  
**SERIES 2017 V1**

| <b>SERIES</b> | <b>PRINCIPAL<br/>AMOUNT AND<br/>DUE DATE<sup>*</sup></b> | <b>INITIAL<br/>INTEREST<br/>RATE MODE</b> | <b>LETTER OF<br/>CREDIT<br/>BANK</b> | <b>LETTER OF<br/>CREDIT<br/>EXPIRATION<br/>DATE</b> | <b>S&amp;P<br/>RATINGS<br/>(2)</b> | <b>CUSIP(3)</b> |
|---------------|--|---|--------------------------------------|---|------------------------------------|-----------------|
| V1            | \$19,000,000<br>Due: May 1, 2036                         | Weekly Mode (1)                           | TD Bank, N.A.                        | May 15, 2020  | AA-/A-1+                           | 613603WW5       |

- (1) Initial Weekly Rate effective: May 1, 2017.
- (2) Based upon the creditworthiness of both Gwynedd Mercy University and TD Bank, N.A. S&P's underlying rating of Gwynedd Mercy University is "BBB". See "RATINGS" herein.
- (3) The CUSIP number listed above is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and is included here solely for the convenience of Bondholders at the time of issuance of the Bonds. None of the Authority, the Borrower or the Underwriter makes any representation with respect to such number or undertakes any responsibility for its accuracy now or at any time in the future.

---

<sup>\*</sup> Preliminary, subject to change.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

---

No dealer, broker, salesperson or other person has been authorized by the Authority, the Borrower, the Program Sponsor, the Bank or the Underwriter to give any information or to make any representations with respect to the Bonds other than those 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, and there shall not be a sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Except for the information concerning the Authority, the information contained herein is not to be construed as a representation by the Authority.

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 responsibility 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.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Borrower, or the Bank or any of its affiliates, or in any other matter described herein, since the date hereof or the dates of the information contained herein.

The order and placement of materials in this Official Statement, including the Appendices hereto, are not to be deemed a determination of relevance, materiality or importance, and this Official Statement, including the Appendices hereto, must be considered in its entirety.

The offering of the Bonds is made only by means of the entire Official Statement. This Official Statement is deemed "final" by the Authority and the Borrower within the meaning of Rule 15c2-12(b) under the Securities Exchange Act of 1934, as amended.

---

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN THE OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT.

[ THIS PAGE INTENTIONALLY LEFT BLANK ]

# TABLE OF CONTENTS

## Page

|   |     |
|---|-----|
| OFFICIAL STATEMENT SUMMARY .....  | i   |
| The Authority.....  | i   |
| The Program Sponsor.....  | i   |
| The Borrower.....   | i   |
| The Trustee .....   | i   |
| The Bank.....   | i   |
| The Remarketing Agent.....  | i   |
| The Project.....  | ii  |
| Authorized Denominations; Book-Entry Only.....  | ii  |
| Security for Bonds .....  | ii  |
| Redemption and Purchase Provisions .....  | iii |
| Purchase of Bonds on Demand of Owners.....  | iii |
| Conversion to a Weekly Mode, Libor-CUBBS Mode or Term Mode.....   | iii |
| Interest on Bonds; Initial Rate.....  | iii |
| INTRODUCTORY STATEMENT .....  | 1   |
| THE AUTHORITY .....   | 3   |
| THE PROGRAM SPONSOR.....  | 4   |
| THE BONDS.....  | 4   |
| General.....  | 4   |
| Book Entry Only System .....  | 5   |
| Interest on Bonds; Initial Rate.....  | 8   |
| Weekly Rate.....  | 8   |
| Term Rate .....   | 9   |
| Libor-CUBBS Rate .....  | 10  |
| Conversion.....   | 11  |
| Redemption Prior to Maturity .....  | 11  |
| Mandatory Sinking Fund Redemption .....   | 11  |
| Optional Redemption of Bonds in Weekly Mode .....   | 12  |
| Optional Redemption of Bonds in Term Mode .....   | 12  |
| Optional Redemption of Bonds in Libor-CUBBS Mode.....   | 13  |
| Mandatory Redemption Upon Expiration of Letter of Credit During Term Mode.....  | 13  |
| Procedure for and Notice of Redemption.....   | 13  |
| Purchase of Bonds in Weekly Mode on Demand of Owners .....  | 14  |
| Mandatory Purchase of Bonds on Conversion Date; at End of Term Rate Period or Libor-CUBBS Rate<br>Period; Upon Expiration of Letter of Credit; Upon Issuance of Letter of Credit or Alternate Letter of<br>Credit; and at Direction of Bank ..... | 15  |
| No Purchases Following Acceleration .....   | 16  |
| Remarketing of Bonds .....  | 16  |
| THE PROJECT.....  | 16  |
| ESTIMATED SOURCES AND USES OF FUNDS.....  | 17  |
| SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.....  | 17  |
| General.....  | 17  |
| The Indenture.....  | 17  |
| The Loan Agreement .....  | 18  |
| Concurrent Issue .....  | 18  |
| Pledged Revenues .....  | 18  |
| Parity Indebtedness .....   | 18  |
| Rate Covenant.....  | 19  |
| Liens on Pledged Revenues and Other Properties.....   | 19  |
| Additional Indebtedness.....  | 19  |
| THE LETTER OF CREDIT .....  | 19  |
| THE LETTER OF CREDIT REIMBURSEMENT AGREEMENT .....  | 21  |
| THE REMARKETING AGREEMENT .....   | 22  |
| DEFINITIONS OF CERTAIN TERMS .....  | 23  |
| THE LOAN AGREEMENT .....  | 29  |
| General.....  | 30  |
| Loan Payments.....  | 30  |
| Pledge of Revenues.....   | 30  |
| Purchase Payments.....  | 30  |
| Letter of Credit.....   | 30  |
| Maintenance of Existence .....  | 30  |
| Compliance with Laws; Commencement and Continuation of Operations at Project Facilities; No Sale,<br>Removal or Demolition of Project Facilities .....  | 31  |
| Lease by Borrower.....  | 31  |

# TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| Financial Statements .....  | 31          |
| Taxes, Other Governmental Charges and Utility Charges .....   | 31          |
| Insurance .....   | 32          |
| Damage to or Condemnation of Project Facilities.....  | 32          |
| Rate Covenant .....   | 33          |
| Incurrence of Additional Indebtedness.....  | 33          |
| Security For Indebtedness .....   | 34          |
| Student Loan Guarantees .....   | 35          |
| No Liens or Encumbrances .....  | 35          |
| Disposition of Assets .....   | 35          |
| Tax Covenants of Borrower and Authority.....  | 36          |
| Environmental Matters.....  | 36          |
| Borrower's Use of the Project Facilities .....  | 37          |
| Events of Default .....   | 37          |
| Remedies.....   | 38          |
| Amendments .....  | 39          |
| Assignment .....  | 39          |
| THE INDENTURE.....  | 39          |
| The Trustee .....   | 39          |
| Pledge and Security.....  | 40          |
| Bond Fund .....   | 40          |
| Project Fund.....   | 41          |
| Rebate Fund .....   | 41          |
| Letter of Credit.....   | 41          |
| Investment of Funds.....  | 43          |
| Reports Regarding Borrower .....  | 43          |
| Events of Default and Remedies .....  | 43          |
| Application of Moneys.....  | 45          |
| Rights and Remedies of Holders.....   | 46          |
| Right of Holders and Bank to Direct Proceedings; Limitations .....  | 46          |
| Waivers of Events of Default.....   | 47          |
| Termination of Proceedings .....  | 47          |
| Supplemental Indentures .....   | 47          |
| Defeasance .....  | 48          |
| Limitation of Rights; No Personal Recourse.....   | 49          |
| BONDHOLDERS' RISKS.....   | 49          |
| General.....  | 49          |
| Covenant to Maintain Tax-Exempt Status of the Bonds .....   | 49          |
| Enforceability of Remedies.....   | 50          |
| State and Federal Legislation.....  | 50          |
| Default by the Bank under the Letter of Credit.....   | 50          |
| Mandatory Tender.....   | 50          |
| Other Risk Factors .....  | 50          |
| LITIGATION .....  | 51          |
| CONTINUING DISCLOSURE .....   | 52          |
| TAX MATTERS .....   | 52          |
| General.....  | 52          |
| Changes In Federal and State Tax Law.....   | 52          |
| LEGAL MATTERS.....  | 53          |
| RATINGS.....  | 53          |
| UNDERWRITING .....  | 53          |
| INDEPENDENT AUDITORS.....   | 54          |
| CERTAIN RELATIONSHIPS .....   | 54          |
| OTHER MATTERS .....   | 54          |
| APPENDIX A – Information Regarding Gwynedd Mercy University   |             |
| APPENDIX B – Audited Financial Statements of Gwynedd Mercy University for the Fiscal Years Ended June 30, 2016 and 2015 |             |
| APPENDIX C – Information Regarding the Bank   |             |
| APPENDIX D – Form of Continuing Disclosure Agreement  |             |
| APPENDIX E – Form of Proposed Opinion of Bond Counsel   |             |

## OFFICIAL STATEMENT SUMMARY

The following is a summary of certain information contained in this Official Statement, to which reference should be made for a complete statement thereof. The Bonds are offered to potential investors only by means of the entire Official Statement, which includes the cover page and reverse thereof, this Summary, and the Appendices hereto. No person is authorized to detach this Summary from the Official Statement or otherwise use it without the entire Official Statement, including the cover page and reverse thereof, this Summary, and the Appendices hereto.

On April 27, 2017, the Authority issued for the benefit of Gwynedd Mercy University (formerly Gwynedd-Mercy College) (the "Borrower"), another series of bonds in this financing program, designated Revenue Bonds (AICUP Financing Program – Gwynedd Mercy University Project) Series 2017 PP2 (the "Fixed Rate Bonds"), which are described in, and were offered for sale pursuant to, a separate official statement. The Fixed Rate Bonds were issued as fixed rate bonds in the aggregate principal amount of \$12,910,000. **The Fixed Rate Bonds are not secured by the Letter of Credit that will initially secure the Bonds.** (See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Concurrent Issue" herein.)

### **The Authority**

Montgomery County Higher Education and Health Authority (the "Authority") is a body corporate and politic created by the Board of Commissioners of Montgomery County, Pennsylvania, pursuant to the provisions of the Pennsylvania Municipality Authorities Act, 53 Pa. Cons. Stat. §§5601-5622, as amended and supplemented (the "Act"). The Authority is authorized under the Act, among other things, to issue bonds or other obligations to finance projects for "eligible educational institutions" (as defined in the Act). The Bonds are being issued pursuant to the Act and a resolution adopted by the Authority.

### **The Program Sponsor**

The financing program pursuant to which the Bonds will be issued is sponsored by the Association of Independent Colleges and Universities of Pennsylvania ("AICUP"), a nonprofit corporation located in Harrisburg, Pennsylvania, currently providing services and programs to 89 institutions of higher education in Pennsylvania. See "THE PROGRAM SPONSOR" herein.

### **The Borrower**

The Borrower is a Pennsylvania nonprofit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Borrower's main campus is located in Gwynedd Valley, Montgomery County, Pennsylvania. For more information regarding the Borrower, see Appendices A and B hereto.

### **The Trustee**

The Authority has appointed The Bank of New York Mellon Trust Company, N.A., Philadelphia, Pennsylvania, to serve as the trustee under the Indenture.

### **The Bank**

TD Bank, N.A., a national banking association (the "Bank"), will provide a Letter of Credit (described below under "Security for Bonds") to secure the Bonds.

### **The Remarketing Agent**

The Authority, at the direction of the Borrower, has appointed George K. Baum & Company to serve as the remarketing agent under the Indenture (the "Remarketing Agent"). See "THE REMARKETING AGREEMENT" herein.

## **The Project**

The proceeds of the sale of the Bonds will be used, together with other available funds, to finance the costs of a project (the "Project") for the benefit of the Borrower consisting of (i) the current refunding of all of the outstanding Pennsylvania Higher Educational Facilities Authority Revenue Bonds (Association of Independent Colleges and Universities of Pennsylvania Financing Program – Gwynedd-Mercy College Project) Series 2007 P1, (ii) financing miscellaneous capital expenditures on the Borrower's campus, and (iii) the payment of certain costs of issuing the Bonds. See "THE PROJECT" herein.

## **Authorized Denominations; Book-Entry Only**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds, and the Bonds will be registered in the name of Cede & Co., as registered owner and nominee for DTC. Individual purchases of Bonds will be made in book-entry form, initially in the authorized denomination of \$100,000 and any whole multiple of \$5,000 in excess thereof, upon conversion to a Libor-CUBBS Mode, in the denomination of \$100,000 and any whole multiple of \$5,000 in excess thereof, and upon conversion to a Term Mode, in the denomination of \$5,000 and any whole multiple thereof. So long as Cede & Co. or any successor nominee of DTC is the registered owner of the Bonds, references herein to the Bondholders, Holders, holders, owners or registered owners shall mean Cede & Co., or such successor nominee, and shall not mean the Beneficial Owners (hereinafter defined) of the Bonds. Principal and interest on the Bonds are payable by the Trustee to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners. (See "THE BONDS -- Book Entry Only System" herein).

## **Security for Bonds**

The Bonds are limited obligations of the Authority payable solely from pledged revenues and other moneys held for that purpose under the Indenture and from amounts drawn under the direct pay Letter of Credit issued by the Bank with respect to the Bonds. The Letter of Credit will permit the Trustee to draw, subject to the terms and conditions thereof, and only while the Bonds are in the Weekly Mode (a) an amount equal to the outstanding principal amount of the Bonds to pay (i) the principal amount of the Bonds when due at maturity, upon redemption or acceleration and (ii) the portion of the purchase price of Bonds tendered to it and not remarketed corresponding to the principal amount of the Bonds, plus (b) an amount equal to 37 days' interest on the Bonds at the rate of 10% per annum to pay (i) interest on the Bonds when due and (ii) the portion of the purchase price of Bonds tendered to the Trustee and not remarketed corresponding to the accrued interest on the Bonds. Upon conversion of the Bonds from one Rate Mode to another Rate Mode, the Trust Indenture requires the delivery of an amendment to the Letter of Credit or an Alternate Letter of Credit if needed to provide for the applicable interest coverage and payment of redemption premiums required under the Indenture. The Letter of Credit will terminate at the earliest to occur of (i) the expiration date shown on the inside cover hereof, unless it is extended by the Bank in its sole discretion, (ii) the date of payment of a final drawing under the Letter of Credit, (iii) the date on which the Bank receives a certificate from the Trustee to the effect that there are no Bonds Outstanding (as defined in the Indenture) other than Bonds secured by an Alternate Letter of Credit, or (iv) the date on which the Letter of Credit is surrendered to the Bank by the Trustee for cancellation. (See "SECURITY AND SOURCES OF PAYMENT FOR BONDS" herein.)

**THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM THE SOURCES REFERRED TO IN THE INDENTURE PURSUANT TO WHICH SUCH BONDS ARE ISSUED AND SECURED, AND THE BONDS SHALL NOT BE OR BE DEEMED TO BE A GENERAL OBLIGATION OF THE AUTHORITY OR AN OBLIGATION OF MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF. NEITHER MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF IS OR SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR PURCHASE PRICE OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS, AND NEITHER THE GENERAL CREDIT OF THE AUTHORITY NOR THE FAITH AND CREDIT OR TAXING POWER OF MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO SUCH PAYMENT. THE AUTHORITY HAS NO TAXING POWER.**



## **Redemption and Purchase Provisions**

The Bonds are subject to optional, mandatory and extraordinary optional redemption, and optional and mandatory purchase, as set forth herein. (See "THE BONDS -- Redemption Prior to Maturity," "THE BONDS -- Purchase of Bonds in Weekly Mode on Demand of Owners" and "THE BONDS -- Mandatory Purchase of Bonds on Conversion Date; at End of Term Rate Period and Libor-CUBBS<sup>SM</sup> Rate Period; Upon Expiration of Letter of Credit; Upon Issuance of Alternate Letter of Credit; and at Direction of Bank" herein.)

### **Purchase of Bonds on Demand of Owners**

While the Bonds are in the Weekly Mode, upon compliance with certain conditions as herein described, the Bonds will be purchased upon the demand of the Holder thereof at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the date of purchase, which date of purchase shall be a Business Day determined by such Beneficial Owner and shall not (without the consent of the Remarketing Agent) be earlier than the seventh day after the date of delivery of an irrevocable Bondholder Tender Notice by the Beneficial Owner to the Trustee and to the Remarketing Agent, as herein described.

### **Conversion to a Weekly Mode, Libor-CUBBS Mode or Term Mode**

At the times specified herein, the Borrower may request the Authority to have all Bonds converted to a Weekly Mode, a Libor-CUBBS<sup>SM</sup>\* Mode or a Term Mode pursuant to the Indenture. All Bonds, if converted, are subject to mandatory purchase on the date of such conversion.

### **Interest on Bonds; Initial Rate**

Initially, the Bonds are expected to be in a Weekly Mode, and as such will bear interest at a Weekly Rate unless and until converted to a different Rate Mode at the direction of the Borrower and upon satisfaction of certain conditions described herein and in the Indenture. Interest at the Weekly Rate is payable monthly on the first Business Day of each calendar month, commencing June 1, 2017. During such time as the Bonds bear interest at a Weekly Rate, the maximum interest rate permitted for the Bonds is 10% per annum. All Bonds shall be in the same Rate Mode at all times.

While the Bonds are in the Libor-CUBBS Mode, the Bonds shall bear interest at a Libor-CUBBS Rate established by the Remarketing Agent in the manner herein described. Interest at the Libor-CUBBS Rate is payable monthly on the first Business Day of each calendar month. During such time as the Bonds bear interest at a Libor-CUBBS Rate, the maximum interest rate permitted for the Bonds is 20% per annum.

While the Bonds are in the Term Mode, the Bonds shall bear interest at a Term Rate established by the Remarketing Agent in the manner herein described. Interest at a Term Rate is payable semiannually on May 1 and November 1 of each year. During such time as the Bonds bear interest at a Term Rate, the maximum interest rate permitted for the Bonds is 15% per annum.

---

\*CUBBS<sup>SM</sup> is a service mark of the Association of Independent Colleges and Universities of Pennsylvania.

[ THIS PAGE INTENTIONALLY LEFT BLANK ]

---

## OFFICIAL STATEMENT

---

**\$19,000,000**  
**MONTGOMERY COUNTY HIGHER EDUCATION AND HEALTH AUTHORITY**  
**(Commonwealth of Pennsylvania)**  
**VARIABLE RATE REVENUE BONDS**  
**(AICUP FINANCING PROGRAM - GWYNEDD MERCY UNIVERSITY PROJECT)**  
**SERIES 2017 V1**

### INTRODUCTORY STATEMENT

This Official Statement, including the cover page and reverse thereof, the table of contents page, the Official Statement Summary and the Appendices hereto, is provided to furnish information with respect to the \$19,000,000 aggregate principal amount of Variable Rate Revenue Bonds (AICUP Financing Program - Gwynedd Mercy University Project) Series 2017 V1 (the "Bonds") being issued by the Montgomery County Higher Education and Health Authority (the "Authority") under a Trust Indenture, dated as of April 1, 2017 (the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., a national banking association, Philadelphia, Pennsylvania, as trustee (the "Trustee"). The Bonds will be dated the date of their initial delivery, will mature on the date or dates set forth on the inside cover hereof, and will be subject to redemption prior to maturity as described herein under "THE BONDS -- Redemption Prior to Maturity."

On April 27, 2017, the Authority issued for the benefit of Gwynedd Mercy University, a Pennsylvania nonprofit corporation (the "Borrower"), another series of bonds, designated Revenue Bonds (AICUP Financing Program – Gwynedd Mercy University Project) Series 2017 PP2 (the "Fixed Rate Bonds"), which are described in, and were offered for sale pursuant to, a separate official statement. The Fixed Rate Bonds were issued as fixed rate bonds in the aggregate principal amount of **\$12,910,000**. **The Fixed Rate Bonds are not secured by the Letter of Credit that will initially secure the Bonds.** (See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Concurrent Issue" herein.)

The Authority will loan the proceeds of the Bonds to the Borrower pursuant to a Loan Agreement dated as of April 1, 2017, between the Authority and the Borrower (the "Loan Agreement"). The Borrower is a private institution of higher education located in the Commonwealth of Pennsylvania, which is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Additional information respecting the Borrower, including certain financial statements, is set forth in Appendices A and B to this Official Statement.

The proceeds of the sale of the Bonds will be used, together with other available funds, to finance the costs of a project (the "Project") for the benefit of the Borrower consisting of (i) the current refunding of all of the outstanding Pennsylvania Higher Educational Facilities Authority Revenue Bonds (Association of Independent Colleges and Universities of Pennsylvania Financing Program – Gwynedd-Mercy College Project) Series 2007 P1 (the "Refunded Bonds"), (ii) financing miscellaneous capital expenditures on the Borrower's campus, and (iii) the payment of certain costs of issuing the Bonds. See "THE PROJECT" herein.

The Bonds are limited obligations of the Authority, and the principal thereof and premium, if any, and interest thereon will be payable solely from the revenues and other moneys assigned and pledged under the Indenture to secure such payment, including (i) the loan payments required to be made by the Borrower under the Loan Agreement, and (ii) moneys and obligations held by the Trustee in certain funds established under the Indenture (See "SECURITY AND SOURCES OF PAYMENT FOR BONDS" herein.)

The Bonds will be secured by an irrevocable, direct pay Letter of Credit (the "Letter of Credit") delivered to the Trustee by TD Bank, N.A., a national banking association (the "Bank"). The Letter of Credit will be issued pursuant to a Letter of Credit Reimbursement Agreement between the Bank and the Borrower (the "Letter of Credit Reimbursement Agreement"). The Letter of Credit will authorize the Trustee to draw, subject to the terms and

conditions thereof, and only while the Bonds are in the Weekly Mode, up to (a) the outstanding principal amount of the Bonds to pay (i) the principal amount of the Bonds when due at maturity, upon redemption or acceleration and (ii) the portion of the purchase price of Bonds tendered to the Trustee and not remarketed equal to the principal amount of the Bonds, plus (b) an amount equal to 37 days' interest on the Bonds at the maximum rate of 10% per annum to pay (i) interest on the Bonds when due and (ii) the portion of the purchase price of Bonds tendered to the Trustee and not remarketed equal to the accrued interest on the Bonds. The Letter of Credit will terminate at the earliest to occur of (i) the expiration date shown on the inside cover hereof, unless it is extended by the Bank in its sole discretion, (ii) the date of payment of a final drawing under the Letter of Credit, (iii) the date on which the Bank receives a certificate from the Trustee to the effect that there are no Bonds Outstanding (as defined in the Indenture) other than Bonds secured by an Alternate Letter of Credit, or (iv) the date on which the Letter of Credit is surrendered to the Bank by the Trustee for cancellation. Upon conversion of the Bonds from one Rate Mode to another Rate Mode, the Trust Indenture requires the delivery of an amendment to the Letter of Credit or an Alternate Letter of Credit if needed to provide for the applicable interest coverage and payment of redemption premiums required under the Indenture. (See "SECURITY AND SOURCES OF PAYMENT FOR BONDS" and "THE LETTER OF CREDIT" herein.)

Initially, the Bonds are expected to be in a Weekly Mode, and as such will bear interest at a Weekly Rate unless and until converted to a different Rate Mode at the direction of the Borrower in accordance with the requirements of the Indenture.

All Bonds shall bear interest at the same rate and shall be in the same Rate Mode at all times.

While Bonds bear interest at a Weekly Rate or a Libor-CUBBS<sup>SM</sup>\* Rate, interest will be payable on the first Business Day of each calendar month (commencing June 1, 2017, in the case of the initial Weekly Rate). Interest on the Bonds will accrue from and including the monthly Interest Payment Date in each calendar month to and including the day next preceding the next monthly Interest Payment Date at a Weekly Rate or a Libor-CUBBS Rate, as applicable. The Weekly Rate and the Libor-CUBBS Rate for the Bonds will be determined by George K. Baum & Company, Inc., as Remarketing Agent (including any successor Remarketing Agent acting in such capacity under the Indenture, the "Remarketing Agent") for each Weekly Rate Period and each Libor-CUBBS Rate Period. The Weekly Rate will not exceed 10% per annum and the Libor-CUBBS Rate will not exceed 20% per annum. (See "THE BONDS -- Interest on Bonds; Weekly Rate" and "THE BONDS—Interest on Bonds; Libor-CUBBS Rate" herein.)

While Bonds bear interest at a Term Rate, interest will be payable semiannually on May 1 and November 1. The Term Rate for the Bonds will be determined by the Remarketing Agent for each Term Rate Period. The Term Rate will not exceed 15% per annum. (See "THE BONDS -- Interest on Bonds; Term Rate" herein.)

While the Bonds bear interest at a Weekly Rate, the registered owners of the Bonds have the right to tender their Bonds for purchase, at a price equal to the principal amount thereof plus accrued interest, if any, on any Business Day, upon written notice delivered to the Trustee and the Remarketing Agent described below on any Business Day at least seven (7) days (or such shorter period acceptable to the Remarketing Agent) prior to the Business Day on which such purchase is to be made. (See "THE BONDS -- Purchase of Bonds in Weekly Mode on Demand of Owners" herein.)

If the interest rate borne by the Bonds is converted from one Rate Mode to a different Rate Mode, (i) the Bonds will be subject to mandatory purchase at a price equal to the principal amount thereof plus accrued interest on the effective date of such conversion, (ii) the Letter of Credit, if any, will be terminated (unless amended at the option of the Bank to provide coverage of interest for 37 days at the applicable Weekly Rate or Libor-CUBBS Rate, or 210 days at the applicable Term Rate, plus any applicable premium), and (iii) owners of the Bonds will no longer have the right to deliver the Bonds to the Trustee for purchase except for such mandatory purchase.

---

\*CUBBS<sup>SM</sup> is a service mark of the Association of Independent Colleges and Universities of Pennsylvania.

The Borrower has entered into a Remarketing Agreement with the Remarketing Agent (the "Remarketing Agreement"), which requires the Remarketing Agent to use its best efforts to arrange for the remarketing of the Bonds (i) while in the Weekly Mode, upon written notice and tender of the Bonds by the owner thereof, and (ii) upon conversion from one Rate Mode to another Rate Mode and at the end of each Term Rate Period and Libor-CUBBS Rate Period, in each such case at a purchase price of par plus accrued interest. (See "THE BONDS -- Purchase of Bonds in Weekly Mode on Demand of Holders; Mandatory Purchase of Bonds on Conversion Date; at End of Term Rate Period and Libor-CUBBS Rate Period; Upon Expiration of Letter of Credit; Upon Issuance of Alternate Letter of Credit; and at Direction of Bank" and "THE REMARKETING AGREEMENT" herein.)

There follow herein brief descriptions of the Authority, the Program Sponsor and the Bonds, together with summaries of the Letter of Credit, the Letter of Credit Reimbursement Agreement, Remarketing Agreement, the Loan Agreement and the Indenture. Certain information regarding the Borrower is included in Appendix A hereto. The Borrower's audited financial statements for the years ended June 30, 2016 and June 30, 2015 are included in Appendix B hereto. Information regarding the Bank is included in Appendix C hereto. The form of the Continuing Disclosure Agreement is set forth in Appendix D, and the form of opinion of Bond Counsel is set forth in Appendix E. The description and summaries of the Letter of Credit, the Letter of Credit Reimbursement Agreement, the Remarketing Agreement, the Loan Agreement, the Indenture and other documents contained herein do not purport to be comprehensive and are qualified in their entirety by reference to such documents, and all references to the Bonds are qualified in their entirety by the definitive form thereof included in the Indenture. Words and terms defined in such documents and not defined herein shall have the meanings set forth in such documents. Copies of such documents will be available for inspection during the initial offering period at the offices of the Underwriter, 651 Holiday Drive, Suite 110, Pittsburgh, Pennsylvania 15220, and thereafter, will be available for inspection at the corporate trust office of the Trustee in Philadelphia, Pennsylvania or at the designated corporate trust office of any successor Trustee.

## **THE AUTHORITY**

### **General**

The Authority is a body politic and corporate of the Commonwealth of Pennsylvania organized and existing under the Act by a resolution adopted by the Board of County Commissioners of Montgomery County (the "County"). On October 1, 1968, the Secretary of the Commonwealth of Pennsylvania (the "Commonwealth") issued a Certificate of Incorporation to the Authority under the name "Montgomery County Hospital Authority". The Authority originally was formed for the purpose of acquiring, holding, constructing, equipping, furnishing, improving, maintaining, owning leasing, either in the capacity of lessor or lessee, and operating hospital facilities or parts thereof in the County. On July 2, 1984, the Secretary of the Commonwealth issued a Certificate of Amendment to the Authority under which the name of the Authority was changed to "Montgomery County Higher Education and Health Authority" and the purposes of the Authority were amended to enable the Authority to participate in additional projects authorized by the Act. On October 24, 1985, the Secretary of the Commonwealth issued a Certificate of Amendment to the Authority under which the purposes of the Authority were amended to enable the Authority to participate in such building, projects, facilities and parts thereof in such locations and the Board of County Commissioners of the County may direct, and as authorized by the Act, and to grant the Authority all of the powers granted by the Act. The Authority's existence will continue until August 1, 2065, unless extended.

The address of the Authority is 1800 East High Street, Suite 250, Pottstown, PA 19464.

The Authority has issued, and may continue to issue, other series of revenue bonds and notes for the purposes of financing other projects as permitted by the Act. None of the Authority's outstanding revenue bonds or notes, other than the Bonds, is payable from or secured by the revenues of the Borrower or other monies securing the Bonds.

### **Authority Not Liable on the Bonds**

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM THE SOURCES REFERRED TO IN THE INDENTURE PURSUANT TO WHICH THE BONDS ARE ISSUED AND SECURED, AND THE BONDS SHALL NOT BE OR BE DEEMED GENERAL OBLIGATIONS OF THE AUTHORITY OR OBLIGATIONS OF MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF. NEITHER MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF IS OR SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS, AND NEITHER THE GENERAL CREDIT OF THE AUTHORITY NOR THE FAITH AND CREDIT OR TAXING POWER OF MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO SUCH PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

The Authority has not prepared or assisted in the preparation of this Official Statement, except the statements with respect to the Authority contained under the captions "THE AUTHORITY" and "LITIGATION," and, except as aforesaid, the Authority is not responsible for any statements made in this Official Statement. Except for the execution and delivery of documents required to effect the issuance of the Bonds, the Authority has not otherwise assisted in the public offer, sale or distribution of the Bonds. Accordingly, except as aforesaid, the Authority disclaims responsibility for the disclosures set forth in this Official Statement or otherwise made in connection with the offer, sale and distribution of the Bonds.

The Authority does not and will not in the future monitor the financial condition of the Borrower, the operations of the Project Facilities or otherwise monitor payment of the Bonds or compliance with the documents relating thereto. The responsibility of the operation of the Project Facilities will rest entirely with the Borrower and not with the Authority. The Authority will rely entirely upon the Trustee and the Borrower to carry out their respective responsibilities under the Indenture and the Loan Agreement and with respect to the Project Facilities.

### **THE PROGRAM SPONSOR**

The Association of Independent Colleges and Universities of Pennsylvania ("AICUP" or the "Program Sponsor") is a nonprofit corporation located in Harrisburg, Pennsylvania. The Program Sponsor sponsors and administers services and programs for its membership, which currently is comprised of 89 institutions of higher education in the Commonwealth. The current members of AICUP are listed on the inside back cover of this Official Statement.

The Program Sponsor is sponsoring this bond financing program (the "Program"), pursuant to which the Bonds and other series of bonds are being issued, in order to provide both an efficient and cost effective source of funding for capital projects of its members or their supporting organizations. In connection with the Program, the Program Sponsor, among other things, will monitor the participation of individual members in the Program. The Program Sponsor will be paid a fee from bond proceeds in connection with the Program activities. Neither the Program Sponsor nor any member of AICUP (other than any AICUP member in its individual capacity as a borrower of proceeds of a particular series of bonds) has any liability for the repayment of any series of bonds, or the loan of bond proceeds to any entity, including the Borrower.

### **THE BONDS**

#### **General**

Upon issuance, the Bonds will be dated the date of their original issuance and delivery (the "Series Issue Date"). The Bonds will mature, unless previously called for redemption, as set forth on the inside front cover hereof and will bear interest at the rates determined from time to time in the manner set forth herein. The Bonds will bear interest from the most recent date to which interest has been paid or duly provided for or, if no interest has been paid or provided for, from the Series Issue Date. The Bonds will be issued as fully registered Bonds without coupons and, initially, will be in the denomination of \$100,000 or any whole multiple of \$5,000 in excess thereof. Following

conversion of the Bonds to a Libor-CUBBS Rate Mode, the Bonds will be in denominations of \$100,000 or any whole multiple of \$5,000 in excess thereof. Following conversion of the Bonds to a Term Rate Mode, the Bonds will be in denominations of \$5,000 or any whole multiple thereof.

The Bonds are subject to optional and mandatory purchase on the following dates (each a "Purchase Date"):

- (a) with respect to any optional tender for purchase of Bonds in the Weekly Mode, any Business Day designated by the Beneficial Owner of the Bonds in a Bondholder Tender Notice as described herein under "Purchase of Bonds in Weekly Mode on Demand of Owners" and
- (b) with respect to any mandatory purchase (1) upon conversion from one Rate Mode to another Rate Mode, the applicable Conversion Date, or if such Conversion Date is not a Business Day, the first Business Day succeeding such Conversion Date, (2) upon expiration of a Term Rate Period or Libor-CUBBS Period, the first Business Day following the end of such Term Rate Period or Libor-CUBBS Rate Period, (3) in anticipation of the expiration of the Letter of Credit or the issuance of an Alternate Letter of Credit, the Interest Payment Date next preceding the Expiration Date of the Letter of Credit or the Interest Payment Date on which an Alternate Letter of Credit becomes effective, as applicable, and (4) at the direction of the Bank, on the Business Day stipulated by the Bank pursuant to the Indenture.

The principal or redemption price of the Bonds will be payable upon presentation and surrender of the Bonds at the designated corporate trust agency office of the initial Trustee or any successor Trustee and interest on the Bonds will be paid on the applicable Interest Payment Date by check mailed to the owners of Bonds shown as the registered owners on the registration books maintained by the Trustee as registrar at the close of business on the last Business Day preceding such Interest Payment Date, for Bonds in the Weekly Mode or the Libor-CUBBS Mode, or at the close of business on the 15th day of the calendar month next preceding an Interest Payment Date, for Bonds in a Term Mode. The interest and the principal or redemption price and purchase price becoming due on the Bonds shall, at the written request of the registered owner of at least \$1,000,000 aggregate principal amount of the Bonds received by the Trustee at least two Business Days before the corresponding Regular Record Date or maturity, redemption or purchase date, be paid by wire transfer within the continental United States in immediately available funds to the bank account number of the registered owner specified in such request and entered by the Trustee on the Register, but, in the case of principal or redemption price and purchase price, only upon presentation and surrender of the Bonds at a designated corporate trust office of the Trustee. (See "THE BONDS -- Book Entry Only System" below.)

The Bank of New York Mellon Trust Company, N.A. has been appointed as Trustee under the Indenture and has a corporate trust office in Philadelphia, Pennsylvania. The Trustee shall act as registrar, paying agent and transfer agent for the Bonds

TD Bank, N.A., a national banking association, is issuing the initial Letter of Credit for the Bonds.

George K. Baum & Company has been appointed by the Authority, at the direction of the Borrower, as remarketing agent for the Bonds (the "Remarketing Agent"), as more fully described under the caption "THE REMARKETING AGREEMENT" herein. The principal Pennsylvania office of the Remarketing Agent is located at 651 Holiday Drive, Suite 110, Pittsburgh, Pennsylvania 15220.

As used herein, "Business Day" means any day other than a Saturday or Sunday or a day on which banks located in Philadelphia, Pennsylvania, New York, New York, or any other city in which the Payment Office of the Trustee or the office of the Bank at which drawing documents are required to be presented under the Letter of Credit is located, are authorized or required by law or executive order to close or a day on which DTC is closed.

### **Book Entry Only System**

The information in this section has been provided by The Depository Trust Company, New York, New York ("DTC") and is not deemed to be a representation of the Authority, the Underwriter or the Borrower. DTC will act as the initial securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and all certificates will be deposited with DTC or pursuant to its instructions.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. 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](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such 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 purchases. 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 Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in 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 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 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. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent by the Trustee to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds 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 Authority or the Trustee as soon as possible after the record date with respect to any request for consent or vote. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those



Direct Participants to whose account the respective Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, redemption price and interest 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 Authority or Trustee, on each 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 Participants and not of DTC, the Trustee, the Authority or the Borrower, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest to Cede & Co. (or to such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority 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 is the responsibility of Direct and Indirect Participants.

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

Upon remarketing of Bonds (as hereinafter described), payment of the purchase price thereof will be made to DTC and no surrender of certificates is expected to be required. Such sales must be made through Direct Participants and Indirect Participants (which may include the Remarketing Agent) and the new Beneficial Owners will not receive delivery of physical certificates. DTC is responsible for transmitting payment to Direct Participants, and Direct and Indirect Participants are responsible for transmitting payment to Beneficial Owners whose Bonds are purchased pursuant to a remarketing. Neither the Authority, the Trustee nor the Remarketing Agent is responsible for transmitting payment to Direct Participants, Indirect Participants or Beneficial Owners.

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

The Authority may determine to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered as described in the Indenture.

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

IT IS THE DUTY OF EACH BENEFICIAL OWNER TO MAKE ARRANGEMENTS WITH THE APPLICABLE DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO RECEIVE FROM SUCH PARTICIPANT NOTICES OF PAYMENTS OF PRINCIPAL, PREMIUM (IF ANY) AND INTEREST, AND ALL OTHER PAYMENTS AND COMMUNICATIONS WHICH THE DIRECT PARTICIPANT RECEIVES FROM DTC. NEITHER THE AUTHORITY NOR THE TRUSTEE HAS ANY DIRECT OBLIGATION OR RESPONSIBILITY TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

THE AUTHORITY, THE TRUSTEE AND THE BORROWER CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS, (2) CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN THE BONDS, OR (3) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL

SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DIRECT PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE AUTHORITY, THE TRUSTEE, NOR THE BORROWER SHALL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A BONDHOLDER WITH RESPECT TO (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OR PURCHASE PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE BONDS.

So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the Holders, holders, owners or registered owners of such Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

#### **Interest on Bonds; Initial Rate**

The Bonds shall initially bear interest at a Weekly Rate, subject to conversion to a Libor-CUBBS Rate or a Term Rate (as described below). A "Weekly Rate" is an interest rate determined and adjusted weekly for each Weekly Rate Period as described below. A "Libor-CUBBS Rate" is an interest rate determined and adjusted monthly for each Libor-CUBBS Rate Period as described below. A "Term Rate" is an interest rate determined at the commencement of each Term Rate Period as described below. Bonds are in the "Weekly Mode" if they bear interest at a Weekly Rate, in a Libor-CUBBS Mode if they bear interest at a Libor-CUBBS Rate, and in a "Term Mode" if they bear interest at a Term Rate. The Weekly Mode, each Libor-CUBBS Mode and each Term Mode are each a "Rate Mode." All Bonds must be in the same Rate Mode at any given time.

While the Bonds bear interest at a Weekly Rate or a Libor-CUBBS Rate, interest shall be payable on the first Business Day of each month (each a monthly "Interest Payment Date"), commencing June 1, 2017, computed on the basis of a year of 365 or 366 days, as appropriate. While the Bonds bear interest at a Term Rate, interest shall be payable on each May 1 and November 1 (each a semiannual "Interest Payment Date"), and will be computed on the basis of a 360-day year consisting of twelve 30-day months. While the Bonds bear interest at a Weekly Rate, the interest rate on the Bonds may not exceed 10% per annum, while the Bonds bear interest at a Libor-CUBBS Rate, the interest rate on the Bonds may not exceed 20% per annum, and while the Bonds bear interest at a Term Rate, the interest rate on the Bonds may not exceed 15% per annum (each, as applicable, the "Maximum Rate").

#### **Weekly Rate**

A Weekly Rate shall be determined for each Weekly Rate Period as described below. On each Weekly Rate Calculation Date, the Remarketing Agent shall determine the Weekly Rate (for the Weekly Rate Period commencing on the Thursday following such Weekly Rate Calculation Date) as the rate which if borne by the Bonds would, in the judgment of the Remarketing Agent, taking into account prevailing financial market conditions, be the lowest interest rate necessary to enable the Remarketing Agent to arrange for the sale of all of the outstanding Bonds at a price equal to the principal amount thereof plus accrued interest thereon. In no event shall any Weekly Rate exceed 10% per annum.

As used herein, "Weekly Rate Calculation Date" means Wednesday in each calendar week or, if any Wednesday is not a Business Day, the first Business Day preceding such Wednesday, and "Weekly Rate Period" means the seven-day period commencing on the first Thursday following the corresponding Weekly Rate

Calculation Date and running through Wednesday of the following calendar week, except that (i) the first Weekly Rate Period shall commence on the Series Issue Date and end on and include the first Wednesday occurring after the Series Issue Date, (ii) the first Weekly Rate Period following a conversion from a Term Mode or the Libor-CUBBS Mode to the Weekly Mode shall commence on the date of such conversion and end on and include the first Wednesday occurring after such conversion date, and (iii) the last Weekly Rate Period prior to a conversion from the Weekly Mode to a Libor-CUBBS Mode or a Term Mode shall end on and include the last day immediately preceding the date of such conversion.

If for any reason the Remarketing Agent does not determine a Weekly Rate for any Weekly Rate Period as aforesaid, or if a court holds a rate for any Weekly Rate Period to be invalid or unenforceable, the Weekly Rate for that Weekly Rate Period shall be equal to the Weekly Rate in effect for the immediately preceding Weekly Rate Period. The Weekly Rate for any consecutive succeeding Weekly Rate Period for which the Remarketing Agent does not determine a Weekly Rate, or a court holds a rate to be invalid or unenforceable, shall be 135% of the SIFMA Municipal Swap Index published for that Weekly Rate Period by Munifacts Wire System, Inc. (or a replacement publisher of the SIFMA Municipal Swap Index designated in writing by the Authority at the direction of the Borrower to the Trustee and the Remarketing Agent); provided that if Munifacts Wire System, Inc. or such replacement publisher does not publish the SIFMA Municipal Swap Index on a day on which a Weekly Rate is to be set, the Weekly Rate shall be 135% of a comparable index selected by the Borrower published by Munifacts Wire System, Inc. or such replacement publisher at such time.

No notice of Weekly Rates will be given to the owners of the Bonds; however, the registered owners may obtain Weekly Rates from the Trustee upon request therefor. The determination of the Weekly Rate by the Remarketing Agent shall be conclusive and binding upon the Authority, the Trustee, the Borrower, the Remarketing Agent, the Bank and the owners of the Bonds.

#### **Term Rate**

A Term Rate shall be determined for each Term Rate Period as described below. Upon any conversion of Bonds from a Weekly Mode or a Libor-CUBBS Mode to a Term Mode, a Nominal Term Rate Period shall be fixed by the Borrower as a term of two or more consecutive Semiannual Periods constituting the nominal length of each Term Rate Period thereafter until the date of a conversion to another Rate Mode. A Term Mode based on one Nominal Term Rate Period and a Term Mode based on another Nominal Term Rate Period are different Rate Modes. Each Term Rate shall be determined by the Remarketing Agent, on the Term Rate Calculation Date, as the lowest rate of interest that, in the judgment of the Remarketing Agent taking into account prevailing financial market conditions, would be necessary to enable the Remarketing Agent to arrange for the sale of the Bonds in the Term Mode in a secondary market sale at a price equal to the principal amount thereof plus accrued interest on the first Business Day of the Term Rate Period; provided that (1) if the Remarketing Agent fails for any reason to determine the Term Rate for any Term Rate Period, then the Term Rate Period shall automatically convert to a Nominal Term Rate Period of one year and the Term Rate shall be equal to 135% of the most recent One Year Municipal Market Data rate as published in The Bond Buyer (or if such rate is no longer available, a similar index selected by the Borrower that is published in a newspaper or other financial publication of general circulation), as of the first day of the corresponding Term Rate Period or, if such day is not a Business Day, the next preceding Business Day, and (2) no Term Rate shall exceed the lesser of (i) the maximum interest rate at which the Letter of Credit then in effect, if any, provides coverage for at least 210 days interest and (ii) 15% per annum. Determinations of Term Rates shall be conclusive and binding upon the Authority, the Borrower, the Trustee, the Bank and the owners of the Bonds.

In lieu of a determination of the Term Rate by the Remarketing Agent as described above, the Borrower, on behalf of the Authority, may retain a financial advisor or auction agent to conduct a competitive bid for purchase of the Bonds in order to determine the lowest rate of interest necessary to sell the Bonds at a price equal to the principal amount thereof plus accrued interest, on the first Business Day of the respective Term Rate Period.

As used herein, "Nominal Term Rate Period" means, with respect to a Term Mode, a period of two or more consecutive Semiannual Periods (expressed in years and half years); "Term Rate Calculation Date" means a Business Day not more than 21 days and not less than one day prior to the first day of the corresponding Term Rate Period (except for Bonds which initially bear interest at a Term Rate); "Term Rate Period" means a period of two or

more consecutive Semiannual Periods equal to the applicable Nominal Term Rate Period commencing on the Semiannual Date immediately following the last day of the immediately preceding Term Rate Period and running through and ending on the day immediately preceding the Semiannual Date which follows such commencement date by a period equal to such Nominal Term Rate Period, except that the first Term Rate Period after conversion from a Weekly Rate or a Libor-CUBBS Rate to a Term Rate shall commence on the date of conversion and end on and include the day immediately preceding the Semiannual Date which follows the Semiannual Date occurring on or immediately preceding such conversion date by a period equal to such Nominal Term Rate Period.

### **Libor-CUBBS Rate**

The Libor-CUBBS Rate applicable during each Libor-CUBBS Rate Period shall be determined as described below. A Nominal Libor-CUBBS Rate Period shall be fixed by the Borrower pursuant to the Indenture as a term of two or more consecutive Semiannual Periods constituting the nominal length of each Libor-CUBBS Rate Period thereafter until the date of a conversion to another Rate Mode. A Libor-CUBBS Mode based on one Nominal Libor-CUBBS Rate Period and a Libor-CUBBS Mode based on another Nominal Libor-CUBBS Rate Period are different Rate Modes. "Libor-CUBBS Rate Period" means a period of two or more consecutive Semiannual Periods equal to the applicable Nominal Libor-CUBBS Rate Period commencing on the Semiannual Date immediately following the last day of the immediately preceding Libor-CUBBS Rate Period and running through and ending on the day immediately preceding the Semiannual Date which follows such commencement date by a period equal to such Nominal Libor-CUBBS Rate Period; except that (i) the first Libor-CUBBS Rate Period after conversion from a Weekly Rate or a Term Rate to a Libor-CUBBS Rate shall commence on the Conversion Date of such conversion and end on and include the day immediately preceding the Semiannual Date which follows the Semiannual Date occurring on or immediately preceding such Conversion Date by a period equal to such Nominal Libor-CUBBS Rate Period.

The Applicable Percentage and the Applicable Spread (each as defined below) for any Libor-CUBBS Rate Period shall be determined by the Remarketing Agent on or prior to the first day of the corresponding Libor-CUBBS Rate Period, but not more than 21 days prior to the first day of such Libor-CUBBS Rate Period. The Remarketing Agent shall provide written notice to the Authority, the Borrower, the Bank and the Trustee of the Applicable Percentage and the Applicable Spread on the date of determination thereof.

The Libor-CUBBS Rate borne by the Bonds during each month during each Libor-CUBBS Rate Period shall be determined by the Remarketing Agent on the Business Day immediately preceding the first day of each month, and shall be equal to the Applicable Percentage multiplied by the sum of (i) LIBOR plus (ii) the Applicable Spread. In no event shall any Libor-CUBBS Rate exceed 20% per annum. If for any reason the Remarketing Agent does not determine a Libor-CUBBS Rate for any Libor-CUBBS Rate Period as described above, then the Bonds shall bear interest at the last rate determined for the Bonds.

No notice of Libor-CUBBS Rates will be given to the Authority, the Borrower, the Bank or the registered owners of the Bonds; however, the Authority, the Borrower, the Bank and the registered owners may obtain Libor-CUBBS Rates from the Trustee or the Remarketing Agent upon request therefor.

The "Applicable Percentage" for any Libor-CUBBS Rate Period shall be the percentage, which shall not be lower than 65% or higher than 135%, determined by the Remarketing Agent on or before the first day of such Libor-CUBBS Rate Period that, when multiplied by LIBOR plus the Applicable Spread, would equal the minimum interest rate per annum that would enable the Remarketing Agent to sell the Bonds on such date at a price equal to the principal amount thereof, plus accrued interest, if any, thereon. The "Applicable Spread" for any Libor-CUBBS Rate Period shall be the number of basis points (expressed as a percentage) determined by the Remarketing Agent on or before the first day of such period that, when added to LIBOR and multiplied by the Applicable Percentage would equal the minimum interest rate per annum that would enable the Remarketing Agent to sell the Bonds on such date at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

"LIBOR" means the fluctuating rate of interest per annum equal to the ICE Benchmark Administration ("ICE") London Interbank Offered Rate, as published by Reuters (or other commercially available source providing quotations of LIBOR as selected by the Remarketing Agent from time to time) as determined for each Business Day at approximately 11:00 a.m. London time two London Banking Days (defined below) prior to the date in question,

for U.S. Dollar deposits (for delivery on the first day of such interest period) with a one month term. A "London Banking Day" is a day on which banks in London are open for business and dealing in offshore dollars.

### **Conversion**

The Indenture provides that the Borrower shall have the option to convert all (but not less than all) of the Bonds from one Rate Mode to another Rate Mode (including, without limitation, from one Term Mode to another Term Mode) on any Conversion Date the Borrower shall select; provided that (i) each Conversion Date shall be an Interest Payment Date and (ii) Bonds in a Term Mode cannot be converted to another Rate Mode prior to the date on or after which the Bonds may first be redeemed at a redemption price of par, plus accrued interest, pursuant to their terms. The Borrower may exercise such option by giving written notice to the Authority, the Trustee, the Remarketing Agent and the Bank, stating its election to convert the Rate Mode of the Bonds to another Rate Mode specified in such notice and stating the Conversion Date therefor, not less than 45 days (or such shorter period as shall be acceptable to the Trustee in its sole discretion) prior to such Conversion Date. In connection with each conversion to a Libor-CUBBS Mode or a Term Mode, the Nominal Libor-CUBBS Rate Period or Nominal Term Rate Period, as applicable, shall be selected by the Borrower and designated in such notice. Notice of the exercise of an option to convert from one Rate Mode to another Rate Mode shall not be effective unless certain conditions set forth in the Indenture are satisfied with respect to such conversion. On or before the tenth day prior to the proposed Conversion Date, the Borrower may give written notice to the Authority, the Trustee, the Remarketing Agent and the Bank to the effect that the Borrower is withdrawing its election to convert the Bonds or is electing to convert the Bonds to a different Rate Mode than the Rate Mode identified in the original notice of election to convert; provided that if the Borrower elects to convert to a different Rate Mode, such notice must be accompanied by certain documents described in the Indenture, including an opinion of Bond Counsel and Bank consent. The Trustee shall give notice by first class mail to the registered owners of the Bonds not less than 15 days prior to the proposed Conversion Date, in the case of a conversion from the Weekly Mode to a different Rate Mode, and not less than 30 days prior to the proposed Conversion Date, in the case of a conversion from a Libor-CUBBS Mode or a Term Mode to a different Rate Mode, unless the proposed Conversion Date is a Libor-CUBBS Rate Period End Interest Payment Date or a Term Rate Period End Interest Payment Date, in which case notice of the conversion is not required to be given to the registered owners. Any such notice of conversion shall state (i) the proposed Conversion Date and (ii) that all outstanding Bonds will be subject to a mandatory purchase on the Conversion Date, or if such Conversion Date is not a Business Day, the first Business Day following such Conversion Date, at a price of par plus accrued interest, if any. As used herein, "Conversion Date" means any Interest Payment Date on which the Rate Mode is converted to another Rate Mode.

### **Redemption Prior to Maturity**

The Bonds will be subject to redemption prior to maturity as follows:

**Mandatory Sinking Fund Redemption.** The Bonds are subject to mandatory sinking fund redemption, from mandatory sinking fund redemption payments, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on the Interest Payment Date in May of the years and in the principal amounts set forth below in part by lot at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the redemption date:

| <u>Year</u> | <u>Principal Amount</u> |
|-------------|-------------------------|
| 2018        | \$260,000               |
| 2019        | 350,000                 |
| 2020        | 345,000                 |
| 2021        | 445,000                 |
| 2022        | 445,000                 |
| 2023        | 545,000                 |
| 2024        | 550,000                 |
| 2025        | 650,000                 |
| 2026        | 650,000                 |
| 2027        | 750,000                 |
| 2028        | 850,000                 |
| 2029        | 850,000                 |
| 2030        | 950,000                 |
| 2031        | 1,050,000               |
| 2032        | 1,950,000               |
| 2033        | 1,975,000               |
| 2034        | 2,075,000               |
| 2035        | 2,135,000               |
| 2036*       | 2,175,000               |

\* Final maturity.

In the event that any Bonds are redeemed (other than through mandatory sinking fund redemption pursuant to the Indenture) and are canceled by the Trustee, the Trustee shall cause the Authority to receive a credit against its mandatory sinking fund redemption obligations in the aggregate principal amount of the Bonds so redeemed, such credits to be given in such order of maturity as may be directed in writing by the Borrower with the consent of the Bank. Also, at its option, the Borrower may deliver to the Trustee for cancellation Bonds purchased by the Borrower pursuant to the Indenture. The Bonds so purchased, delivered and canceled shall be credited by the Trustee at 100% of the principal amount thereof against the sinking fund redemption obligations of the Authority in such order of maturity as may be directed in writing by the Borrower with the consent of the Bank.

Optional Redemption of Bonds in Weekly Mode. While the Bonds are in the Weekly Mode, the Bonds are subject to optional redemption by the Authority, at the written direction of the Borrower, in whole at any time or in part on any Interest Payment Date, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest to the redemption date.

Optional Redemption of Bonds in Term Mode. While the Bonds are in a Term Mode, the Bonds are subject to optional redemption by the Authority, at the written direction of the Borrower, only (i) in whole or in part on a Term Rate Period End Interest Payment Date at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date or (ii) in the case of Term Rate Periods of more than three years, prior to the end of the then current Term Rate Period in whole at any time or in part on any Interest Payment Date, provided that the Bonds shall not be redeemable during the No Call Period, which shall begin on the first day of the current Term Rate Period and end on (a) the day preceding the third anniversary of the first day of the current Term Rate Period, in the case of a Term Rate Period of five (5) years or less, or (b) the day preceding the fifth anniversary of the first day of the current Term Rate Period, in the case of a Term Rate Period of more than five (5) years. In each Term Rate Period after the applicable No Call Period, the Bonds shall be redeemable at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

In connection with any conversion to a Term Mode, the Authority (at the written direction of the Borrower) may, by written stipulation delivered to the Trustee, the Remarketing Agent and the Bank, waive or otherwise alter its right to direct the optional redemption of Bonds and may provide for the payment of a redemption premium in connection with any optional redemption; provided that, at least 30 days (or such shorter period as shall be acceptable to the Trustee, the Remarketing Agent and the Bank) prior to the respective Conversion Date, there is delivered to the Trustee, the Remarketing Agent and the Bank (i) a notice from the Authority setting forth such

waiver or alterations and (ii) an opinion of nationally recognized bond counsel to the effect that such waiver or alterations are authorized or permitted under the Indenture and the Act, and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

Optional Redemption of Bonds in Libor-CUBBS Mode. While the Bonds are in a Libor-CUBBS Mode, the Bonds may be redeemed by the Authority, at the written direction of the Borrower, in whole at any time or in part on any Interest Payment Date, prior to maturity at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

If a Letter of Credit is in effect, the Trustee shall only call Bonds for optional redemption if (i) it holds moneys in the Bond Fund available for payment of the Bonds to be redeemed pursuant to the Indenture or (ii) the Bank has consented in writing to such optional redemption, which consent may be conditioned on the deposit to the Bond Fund by not later than the opening of business on the redemption date of moneys sufficient to reimburse the Bank for a drawing on the Letter of Credit to pay the redemption price.

Mandatory Redemption Upon Expiration of Letter of Credit During Term Mode. If a Letter of Credit is in effect, then while the Bonds are in a Term Mode, the Bonds are subject to mandatory redemption in whole by the Authority on the Interest Payment Date next preceding the Expiration Date of the Letter of Credit, unless at least 45 days (or such shorter period as shall be acceptable to the Trustee in its sole discretion) before such Interest Payment Date the Trustee has received notice that the Letter of Credit has been or will be extended by the Bank; provided that, if such Interest Payment Date is a Term Rate Period End Interest Payment Date, then the Bonds shall not be so redeemed but shall be subject to mandatory purchase in accordance with the Indenture and as described herein under "THE BONDS -- Mandatory Purchase of Bonds on Conversion Date; at End of Term Rate Period or Libor-CUBBS Rate Period; Upon Expiration of Letter of Credit; Upon Issuance of Alternate Letter of Credit; and at Direction of Bank". "Term Rate Period End Interest Payment Date" means the Semiannual Date immediately following the last date of a Term Rate Period. The redemption price of Bonds so redeemed shall be equal to the redemption price that would be applicable to the Bonds if they were redeemed by optional redemption pursuant to the Indenture; provided that if such redemption occurs during the applicable No Call Period with respect to optional redemption, then the redemption price shall be equal to 100 ½% of the principal amount of the Bonds so redeemed.

In connection with any conversion of Bonds to a Term Mode, the Authority (at the written direction of the Borrower) may, by written stipulation delivered to the Trustee, the Remarketing Agent and the Bank, waive or otherwise alter any redemption premium which may become payable in connection with a mandatory redemption upon expiration of the Letter of Credit; provided that, at least 30 days (or such shorter period as shall be acceptable to the Trustee, the Remarketing Agent and the Bank) prior to the Conversion Date, there is delivered to the Trustee, the Remarketing Agent and the Bank (i) a notice from the Authority setting forth such alterations and (ii) an opinion of nationally recognized bond counsel to the effect that such alterations are authorized or permitted under the Indenture and the Act, and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

### **Procedure for and Notice of Redemption**

The Trustee is required to cause notice of the call for redemption, identifying the Bonds or portions thereof to be redeemed, to be sent by first class mail, not more than 60 days (45 days, in the case of mandatory redemption upon the expiration of a Letter of Credit if the Bonds are in the Term Mode) and not less than 30 days (20 days, if the Bonds are in the Weekly Mode or the Libor-CUBBS Mode, or if the Bonds are in a Term Mode and the redemption is due to the expiration of the Letter of Credit) prior to the date set for redemption of all or part of the Bonds, to the registered owner of each Bond to be redeemed at such owner's registered address. So long as the Bonds or any portion thereof are held by DTC, the Trustee shall send each notice of redemption of the Bonds to DTC. Failure to mail any such notice or defect in the mailing thereof in respect of any Bond shall not affect the validity of the redemption of any other Bond with respect to which notice is properly given.

If at the time of mailing of notice of any optional redemption or extraordinary optional redemption there shall not have been deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of such redemption moneys with the

Trustee not later than the opening of business on the redemption date, in which case such notice shall be of no effect unless moneys are so deposited.

If less than all Bonds are to be redeemed, the selection of the Bonds to be redeemed shall be made by the Trustee by lot or in such other manner as the Trustee deems fair and appropriate; provided that (i) any outstanding Pledged Bonds shall be redeemed first and any outstanding Borrower Bonds shall be redeemed second to the extent moneys are available therefor, and (ii) if any Bond is to be redeemed in part, the principal portion to remain outstanding must be in an authorized denomination. (As used herein, "Pledged Bonds" means Bonds purchased with unreimbursed draws on the Letter of Credit and "Borrower Bonds" means Bonds (other than Pledged Bonds) registered in the name of the Borrower or any affiliate.) In the case of a partial redemption of Bonds, when Bonds of denominations greater than \$100,000 (or \$5,000 if the Bonds are then issued in \$5,000 denominations) are then Outstanding, each \$5,000 unit of face value of principal thereof shall be treated as if it were a separate Bond of the denomination of \$5,000.

### **Purchase of Bonds in Weekly Mode on Demand of Owners**

While the Bonds are in the Weekly Mode, any Bond (or portion thereof in an authorized denomination) shall be purchased on the demand of the owner thereof on any Business Day designated by such owner as described below (the "Purchase Date") at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, to the Purchase Date, provided such owner delivers to the Trustee at a designated delivery office and to the Remarketing Agent at its principal office a written notice (a "Bondholder Tender Notice"), not less than seven (7) days prior to the Purchase Date. By delivering the Bondholder Tender Notice, the owner irrevocably agrees to deliver the Bond or Bonds described therein (if the Bonds are in certificated form) duly endorsed for transfer in blank and with guarantee of signature satisfactory to the Trustee, to a designated delivery office or any other address designated by the Trustee at or before 12:00 noon eastern time on the Purchase Date. The determination by the Trustee of a holder's compliance with the requirements of the Bondholder Tender Notice and of Bond delivery requirements is in its sole discretion and shall be binding on the Borrower, the Authority, the Remarketing Agent, the Bank and the Holders of the Bonds. Any Bondholder Tender Notice which the Trustee determines is not in compliance with the Indenture shall be of no force or effect.

SO LONG AS THE BONDS ARE HELD IN BOOK-ENTRY FORM BY DTC OR ITS NOMINEE, THE BENEFICIAL OWNER OF BONDS IS RESPONSIBLE FOR SUBMITTING THE BONDHOLDER TENDER NOTICE, AND SHALL BE TREATED AS THE OWNER FOR SUCH PURPOSE, AND SUCH NOTICE NEED ONLY BE SUBMITTED TO THE REMARKETING AGENT. SUCH BONDHOLDER TENDER NOTICE MAY BE TRANSMITTED TELEPHONICALLY AND, IF REQUESTED, CONFIRMED IN WRITING AS PERMITTED BY THE REMARKETING AGENT.

Any election by a holder to tender a Bond (or portion thereof) for purchase on a Business Day shall be irrevocable and shall be binding on the holder making such election and on any transferee of such holder. Each Bondholder Tender Notice shall automatically constitute (i) an irrevocable offer to sell the Bond (or portion thereof) to which such notice relates on the Purchase Date at a price equal to the purchase price of such Bond (or portion thereof) described above, (ii) an irrevocable authorization and instruction to the Trustee to effect transfer of such Bond (or portion thereof) upon payment of the purchase price to the Trustee on the Purchase Date, (iii) with respect to a tender of a portion of a Bond, an irrevocable authorization and instruction to the Trustee to effect the exchange of such Bond in part for other Bonds in a principal amount equal to the retained portion so as to facilitate the sale of the tendered portion of such Bond, and (iv) an acknowledgment that such owner will have no further rights with respect to such Bond (or portion thereof) upon payment of the purchase price thereof to the Trustee on the Purchase Date, except for the right of such owner to receive such purchase price upon surrender of such Bond, if held in certificated form, to the Trustee endorsed for transfer in blank and with guarantee of signature satisfactory to the Trustee and that after the Purchase Date such owner will hold such Bond as agent for the Trustee.

If the Bonds are in certificated form and, after delivery to the Trustee and the Remarketing Agent of a Bondholder Tender Notice, the holder giving such notice shall fail to deliver such Bond or Bonds described in the Bondholder Tender Notice to the Trustee at a designated delivery office on or before 12:00 noon eastern time on the applicable Purchase Date, any Bond, or portion thereof, not so delivered (the "Undelivered Bond") described in such Bondholder Tender Notice shall be deemed to have been tendered for purchase to the Trustee. No further interest on



such Undelivered Bond shall accrue on or after the Purchase Date; and the Undelivered Bond shall no longer be outstanding under the Indenture.

The Trustee shall not be obligated to pay the purchase price of Bonds from any funds other than, first, remarketing proceeds delivered to it by the Remarketing Agent with respect to such Bonds, second, moneys held in the Bond Fund and available to make such payment pursuant to the Indenture (which moneys must be Available Moneys if a Letter of Credit is in effect), third, if a Letter of Credit is in effect, proceeds from a drawing on the Letter of Credit deposited directly into the Letter of Credit Purchase Account (as defined in and created under the Indenture) provided that such proceeds shall not be applied to purchase Pledged Bonds or Borrower Bonds, and fourth, payments made by the Borrower for such purpose pursuant to the Loan Agreement. Moneys in other funds (except as set forth above) under the Indenture and moneys provided by the Borrower for payments of principal, premium, if any, or interest on the Bonds will not be available for the purchase of the Bonds. If the funds available for purchases of Bonds are inadequate for the purchase of all Bonds tendered on any Purchase Date, the Trustee shall, after any applicable grace period: (a) return all tendered Bonds to the owners thereof and (b) return all moneys received for the purchase of the Bonds (other than moneys provided by the Borrower and other than Letter of Credit proceeds, unless the Letter of Credit is reinstated with respect thereto) to the persons providing such moneys. Notwithstanding the foregoing, the owners of the Bonds shall retain all rights to tender the Bonds thereafter pursuant to the terms of the Indenture.

**Mandatory Purchase of Bonds on Conversion Date; at End of Term Rate Period or Libor-CUBBS Rate Period; Upon Expiration of Letter of Credit; Upon Issuance of Letter of Credit or Alternate Letter of Credit; and at Direction of Bank**

The Bonds are subject to mandatory purchase, at a purchase price equal to the principal amount thereof, plus, in the case of purchases on a Purchase Date which is not an Interest Payment Date, accrued interest thereon, as follows:

- (i) on each Conversion Date, or if such Conversion Date is not a Business Day, the first Business Day succeeding such Conversion Date;
- (ii) on the first Business Day immediately following the end of each Term Rate Period or Libor-CUBBS Rate Period;
- (iii) while the Bonds are in the Weekly Mode and a Letter of Credit is in effect, on the Interest Payment Date next preceding the Expiration Date of the Letter of Credit unless at least 45 days (or such shorter period as shall be acceptable to the Trustee in its sole discretion) prior to such Interest Payment Date the Trustee has received written notice that the Letter of Credit has been or will be extended;
- (iv) on the Interest Payment Date on which a Letter of Credit or an Alternate Letter of Credit is issued; and
- (v) while the Bonds are in the Weekly Mode and a Letter of Credit is in effect, on the Purchase Date stipulated by the Bank, in the event the Bank directs the Trustee to call the Bonds for mandatory purchase pursuant to the Indenture.

In the case of any mandatory purchase of Bonds pursuant to clause (i) above, the Trustee shall cause notice of such mandatory purchase to be given at the time described above under the heading "Conversion," and in the case of any mandatory purchase of Bonds pursuant to clause (ii), (iii), (iv) or (v) above, the Trustee shall cause notice of such mandatory purchase to be given not more than 45 days and not less than 15 days (not less than 5 days in the case of a mandatory purchase pursuant to clause (v) above) prior to the Purchase Date, by mailing copies of such notice of mandatory purchase by first class mail to all Holders of Bonds to be purchased at their registered addresses.

Holders of Bonds subject to mandatory purchase must tender their Bonds for purchase to the Trustee prior to 12:00 noon, eastern time, on the applicable Purchase Date, and any such Bond which is not so delivered (an

"Undelivered Bond") shall be deemed to have been tendered to the Trustee as of the applicable Purchase Date, and interest on such Undelivered Bond shall cease to accrue on the applicable Purchase Date. Thereafter, the owner of such Undelivered Bond shall not be entitled to any payment other than the purchase price for such Undelivered Bond upon surrender thereof to the Trustee duly endorsed for transfer in blank and with guarantee of signature satisfactory to the Trustee. Except for payment of such purchase price from moneys held by the Trustee for such purpose, such Undelivered Bond shall no longer be outstanding and entitled to the benefits of the Indenture.

The Trustee shall not be obligated to pay the purchase price of Bonds from any funds other than, first, remarketing proceeds delivered to it by the Remarketing Agent with respect to such Bonds, second, moneys held in the Bond Fund and available to make such payment pursuant to the Indenture (which moneys must be Available Moneys if a Letter of Credit is in effect), third, if a Letter of Credit is in effect, proceeds from a drawing on the Letter of Credit deposited directly into the Letter of Credit Purchase Account (as defined in and created under the Indenture) provided that such proceeds shall not be applied to purchase Pledged Bonds or Borrower Bonds, and fourth, payments made by the Borrower for such purpose pursuant to the Loan Agreement. Moneys in other funds (except as set forth above) under the Indenture and moneys provided by the Borrower for payments of principal, premium, if any, or interest on the Bonds will not be available for the purchase of the Bonds. If the funds available for purchases of Bonds are inadequate for the purchase of all Bonds tendered on any Purchase Date, the Trustee shall, after any applicable grace period: (a) return all tendered Bonds to the owners thereof and (b) return all moneys received for the purchase of the Bonds (other than moneys provided by the Borrower and other than Letter of Credit proceeds, unless the Letter of Credit is reinstated with respect thereto) to the persons providing such moneys.

#### **No Purchases Following Acceleration**

If the Bonds have been declared immediately due and payable as a result of an Event of Default under the Indenture and such declaration has not been annulled, stayed or otherwise suspended, then the Bonds will cease to be subject to purchase.

#### **Remarketing of Bonds**

The Remarketing Agent will use its best efforts to remarket the Bonds in respect of which a Bondholder Tender Notice has been delivered in connection with the purchase of the Bonds on demand of the owner thereof as described herein, at a purchase price of 100% of the principal amount thereof plus accrued interest on the applicable Purchase Date. The proceeds of any such sale shall be applied against the payment of the purchase price of the Bonds. If the Bonds are not successfully remarketed for purchase on the applicable Purchase Date, the Trustee will draw on the Letter of Credit (if any) to pay the purchase price.

### **THE PROJECT**

The proceeds of the sale of the Bonds will be used, together with other available funds, to finance the Project, consisting of (i) the current refunding of the Refunded Bonds, (ii) financing miscellaneous capital expenditures on the Borrower's campus, and (iii) the payment of certain costs of issuing the Bonds.

## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the Bonds:

### Sources of Funds

|   |                        |
|---|------------------------|
| Par Amount of Bonds.....                  | \$19,000,000.00        |
| Existing Debt Service Reserve Funds ..... | 1,616,353.91           |
| University Equity Contribution.....       | <u>200,000.00</u>      |
| TOTAL SOURCES OF FUNDS .....              | <u>\$20,816,353.91</u> |

### Uses of Funds

|  |                        |
|--|------------------------|
| Refunding of Refunded Bonds.....         | \$19,613,220.60        |
| Miscellaneous Capital Expenditures ..... | 1,033,758.31           |
| Costs of Issuance <sup>(2)</sup> .....   | <u>169,375.00</u>      |
| TOTAL USES OF FUNDS.....                 | <u>\$20,816,353.91</u> |

---

(1) Includes amounts to be paid for Authority related fees, Trustee fees, rating agency fees, legal counsel fees, printing costs, Underwriter's discount, Program Sponsor fee, and other fees and expenses.

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### General

The Bonds will constitute limited obligations of the Authority payable solely from, and secured by, the revenues and other moneys pledged and assigned by the Indenture to secure that payment, which include the payments required to be made by the Borrower under the Loan Agreement, and moneys derived by the Trustee from drawings under the Letter of Credit (collectively, the "Revenues").

In the event of a default by the Borrower under the Letter of Credit Reimbursement Agreement, the Trustee may be required to accelerate the stated maturity of the Bonds. Upon acceleration, the Bonds would be paid at par plus accrued interest to the date determined by the Trustee for tender of payment to the Bondholders. (See "THE LETTER OF CREDIT" and "THE LETTER OF CREDIT REIMBURSEMENT AGREEMENT" herein.)

**THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE PAYABLE SOLELY FROM THE SOURCES REFERRED TO IN THE INDENTURE PURSUANT TO WHICH SUCH BONDS ARE ISSUED AND SECURED, AND THE BONDS SHALL NOT BE OR BE DEEMED TO BE A GENERAL OBLIGATION OF THE AUTHORITY OR AN OBLIGATION OF MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF. NEITHER MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA NOR ANY POLITICAL SUBDIVISION THEREOF IS OR SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR PURCHASE PRICE OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS, AND NEITHER THE GENERAL CREDIT OF THE AUTHORITY NOR THE FAITH AND CREDIT OR TAXING POWER OF MONTGOMERY COUNTY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO SUCH PAYMENT. THE AUTHORITY HAS NO TAXING POWER.**

### The Indenture

The Bonds will be issued under and secured by the Indenture. The Indenture provides that all Bonds issued thereunder will be limited obligations of the Authority, payable solely from the sources identified therein, which include: (i) payments required to be made by the Borrower under the Loan Agreement (other than certain fees and

indemnification payments required to be paid to the Authority or to the Trustee), (ii) certain moneys and securities held by the Trustee under the Indenture and investment earnings thereon (but excluding the Rebate Fund, the Letter of Credit Purchase Account, Remarketing Proceeds Purchase Account, and the Borrower Purchase Account), and (iii) moneys derived by the Trustee from drawings under the Letter of Credit. See "THE INDENTURE" below for a summary of certain provisions of the Indenture.

### **The Loan Agreement**

Under the Loan Agreement, the Borrower will be obligated to make loan payments in amounts necessary to provide for the payment as and when due of the principal or redemption price of, and interest on, the Bonds, any amounts that may be required to make up any deficiency that may occur in any funds and accounts established under the Indenture, and to provide for certain other payments required by the Indenture. The Authority will assign the Loan Agreement, including its right to receive loan payments thereunder (other than certain fees, expenses and indemnification payments required to be paid to the Authority or to the Trustee) to the Trustee as security for the Bonds.

The Loan Agreement is the general obligation of the Borrower and the full faith and credit of the Borrower is pledged to secure the payments required thereunder. The Borrower's obligations under the Loan Agreement are secured by a pledge of the Pledged Revenues of the Borrower (as further described under "Pledged Revenues" below). For a summary of certain provisions of the Loan Agreement, see "THE LOAN AGREEMENT" herein.

### **Concurrent Issue**

On April 27, 2017, the Authority issued for the benefit of the Borrower, another series of bonds, the Fixed Rate Bonds, in the aggregate principal amount of \$12,910,000. The Authority loaned the proceeds of the Fixed Rate Bonds to the Borrower pursuant to a separate loan agreement (the "Fixed Rate Loan Agreement"). The Fixed Rate Bonds are secured, on a parity basis with the Bonds, by a lien on and security interest in the Pledged Revenues (described below). **The Fixed Rate Bonds are not secured by the Letter of Credit that will initially secure the Bonds.**

### **Pledged Revenues**

To secure its obligations under the Loan Agreement, the Borrower will grant to the Trustee (as the assignee of the Authority) a lien on and security interest in its Pledged Revenues (the "Parity Lien"), on a parity with any lien on and security interest in the Pledged Revenues heretofore or hereafter granted by the Borrower to secure the Borrower's obligations respecting any Parity Indebtedness incurred by or for the benefit of the Borrower (see "Parity Indebtedness" below). The term "Pledged Revenues" is defined under the caption "DEFINITIONS OF CERTAIN TERMS" herein. The existence of such lien and security interest in the Pledged Revenues of the Borrower will not prevent the Borrower from expending, depositing or commingling such funds so long as the Borrower is not in default under the Loan Agreement and any agreements pertaining to any applicable Parity Indebtedness. To the extent that a security interest can be perfected in the Pledged Revenues of the Borrower by filing of financing statements, such action will be taken. The security interest in the Pledged Revenues of the Borrower may not be enforceable against third parties unless such Pledged Revenues of the Borrower are actually transferred to the Trustee or are subject to exceptions under the Uniform Commercial Code (the "UCC") as enacted in the Commonwealth of Pennsylvania. Under current law, such security interest may be further limited by the following: (1) statutory liens; (2) rights arising in favor of the United States of America or any agency thereof; (3) present or future prohibitions against assignment contained in any Commonwealth of Pennsylvania or Federal statutes or regulations; (4) constructive trusts, equitable liens or other rights impressed or conferred by any Commonwealth of Pennsylvania or Federal court in the exercise of its equitable jurisdiction; (5) Federal bankruptcy laws; and (6) the filing of appropriate continuation statements pursuant to UCC provisions as from time to time in effect.

### **Parity Indebtedness**

The term "Parity Indebtedness" refers to any indebtedness hereafter issued by or on behalf of the Borrower, that is secured by a lien on and security interest in the Pledged Revenues of the Borrower on a parity with the lien on

and security interest in such Pledged Revenues that will be granted by the Borrower to secure its obligations under the Loan Agreement. The following revenue bonds heretofore issued for the benefit of the Borrower (the "Other Bonds") will remain outstanding after the issuance of the Bonds and will constitute Parity Indebtedness: (i) Pennsylvania Higher Educational Facilities Authority Revenue Bonds (AICUP Financing Program – Gwynedd-Mercy College Project) Series 2012 KK1, of which \$10,000,000 in principal amount is currently outstanding; (ii) the Pennsylvania Higher Educational Facilities Authority Revenue Bonds (AICUP Financing Program – Gwynedd-Mercy College Project) Series 2007 GG5 maturing May 1, 2018 in the principal amount of \$840,000; and (iii) the Fixed Rate Bonds, which were issued on April 27, 2017 in the approximate principal amount of \$12,910,000 pursuant to a separate trust indenture. The agreements entered into by the Borrower to secure its obligations respecting the Parity Indebtedness, and all supplements and amendments thereto, are collectively referred to herein as the "Parity Debt Documents."

The Parity Debt Documents contain various covenants and agreements, solely for the benefit of the holders of the Parity Indebtedness, which will be in effect so long as any of the Parity Indebtedness remain outstanding. A default by the Borrower in its obligations under the Parity Debt Documents could result in a default under the Indenture that secures the Bonds. Prior to the closing for the issuance of the Bonds, copies of the Parity Debt Documents may be obtained upon request to the Underwriter.

The Parity Indebtedness are secured by a lien on and security interest in the Pledged Revenues of the Borrower on a parity with the lien on and security interest in such Pledged Revenues that will be granted by the Borrower to secure its obligations under the Loan Agreement.

#### **Rate Covenant**

Under the Loan Agreement, the Borrower covenants that it will establish, charge and collect tuition, student fees and charges for services provided by the Borrower such that Net Revenues Available for Debt Service (defined under "THE LOAN AGREEMENT" below) will equal or exceed, in each fiscal year, 110% of the Debt Service Requirement for such fiscal year. See "THE LOAN AGREEMENT – Rate Covenant" below.

#### **Liens on Pledged Revenues and Other Properties**

Except as described above under "Pledged Revenues," the Borrower has not given or granted a mortgage lien or other security interest or encumbrance upon any property of the Borrower to secure its payment obligations under the Loan Agreement. In the Loan Agreement, the Borrower covenants and agrees that it shall not grant any liens on its Pledged Revenues or any of its other property (whether real or personal, and whether owned as of the date of issuance of the Bonds or acquired thereafter) except for Permitted Encumbrances (defined below).

#### **Additional Indebtedness**

The Borrower may incur, guaranty or assume additional indebtedness upon compliance with specified requirements and limitations contained in the Loan Agreement and the Parity Debt Documents. To the extent permitted under the Loan Agreement and the Parity Debt Documents, such additional indebtedness may be secured by liens on and security interests in property of the Borrower, including a lien on and security interest in the Pledged Revenues on a parity with the lien on and security interest in the Pledged Revenues granted to secure the Bonds and any Parity Indebtedness of the Borrower. See "THE LOAN AGREEMENT – "Incurrence of Additional Indebtedness" and "Security for Indebtedness"" herein for a description of the requirements and limitations relating to the incurrence of and security for additional indebtedness which may be incurred by the Borrower.

### **THE LETTER OF CREDIT**

The following summarizes certain provisions of the Letter of Credit, which is a direct pay letter of credit. Reference is made to the Letter of Credit for the details of the provisions thereof.

The Letter of Credit will be held by the Trustee. The Letter of Credit is an irrevocable obligation of the Bank to pay to the Trustee, upon drawings by the Trustee pursuant to the terms and conditions set forth in the Letter

of Credit, and only while the Bonds are in the Weekly Mode, up to (a) an amount equal to the outstanding principal amount of the Bonds to enable the Trustee to pay (i) the principal amount of the Bonds when due at maturity, upon redemption or acceleration and (ii) the portion of the purchase price of Bonds tendered to it and not remarketed corresponding to the principal amount of the Bonds, plus (b) an amount equal to 37 days' interest on the Bonds at the maximum rate of 10% per annum to enable the Trustee to pay (i) interest on the Bonds when due and (ii) the portion of the purchase price of Bonds tendered to it and not remarketed corresponding to the accrued interest on the Bonds. Upon conversion of the Bonds from one Rate Mode to another Rate Mode, the Trust Indenture requires the delivery of an amendment to the Letter of Credit or an Alternate Letter of Credit if needed to provide for the applicable interest coverage and payment of redemption premiums required under the Indenture.

Pursuant to the Indenture, the Trustee is required to draw upon the Letter of Credit in the following circumstances:

- (i) to make timely payment of the principal of and interest on the Bonds;
- (ii) to make timely payment of the redemption price of Bonds called for mandatory or optional redemption; and
- (iii) to make timely payment of the purchase price of Bonds required to be purchased, as the result of a permitted or required tender, pursuant to the provisions of the Indenture to the extent other funds are not available to make such payment under the Indenture.

The Letter of Credit will terminate upon the earliest to occur of the following: (i) the expiration date shown on the inside cover hereof, or such later date to which the Letter of Credit may be extended by the Bank in its sole discretion (the "Expiration Date"), (ii) the earlier of (A) the date which is fifteen (15) days after the Conversion Date (as defined in the Indenture) as evidenced in writing by the Trustee and delivered to the Bank, and (B) the date on which the Bank honors a drawing under the Letter of Credit on or after the Conversion Date, (iii) the date which is fifteen (15) days following receipt by the Trustee of a written notice specifying the occurrence of an Event of Default under the Letter of Credit Reimbursement Agreement, (iv) the date of receipt by the Bank of notice from the Trustee to the effect that an Alternate Letter of Credit Facility (as defined in the Indenture) in full and complete substitution for the Letter of Credit has been issued in accordance with the provisions of the Indenture and has been in effect for at least one (1) Business Day; or (v) the principal balance of the amount available under the Letter of Credit has been reduced to zero and is not subject to reinstatement. The Expiration Date may be extended beyond the Expiration Date then in effect only at the sole discretion of the Bank. Bonds in the Weekly Mode are subject to mandatory purchase on the Interest Payment Date immediately preceding the Expiration Date if the Letter of Credit shall not have been extended or replaced pursuant to the Indenture. (See "THE BONDS -- Mandatory Purchase of Bonds on Conversion Date; at End of Term Rate Period or Libor-CUBBS Rate Period; Upon Expiration of Letter of Credit; Upon Issuance of Alternate Letter of Credit; and at Direction of Bank" herein.)

As provided in the Indenture, at least 45 days (or such shorter period as shall be acceptable to the Trustee in its sole discretion) prior to the Interest Payment Date next preceding the scheduled Expiration Date of the current Letter of Credit, the Borrower may provide for the delivery to the Trustee of (i) an amendment to the Letter of Credit which extends the scheduled Expiration Date to a date not earlier than three months from its then current scheduled Expiration Date and that follows an Interest Payment Date by not less than seven calendar days and not more than fifteen calendar days or (ii) if the Bonds are in a Weekly Mode or if the Interest Payment Date next preceding the Expiration Date of the current Letter of Credit is a Libor-CUBBS Rate Period End Interest Payment Date or a Term Mode Period End Interest Payment Date, an Alternate Letter of Credit which shall have terms which are the same in all material respects as the Letter of Credit then in effect (except for any changes pursuant to the Indenture of interest or premium coverage in connection with a concurrent interest rate reset or conversion) and which will have a scheduled Expiration Date of not earlier than one year from the Expiration Date of the Letter of Credit then in effect and that follows an Interest Payment Date by not less than seven calendar days and not more than fifteen calendar days. The Borrower shall be deemed to have provided for such amendment extending the Letter of Credit or for such Alternate Letter of Credit if the Borrower shall have delivered to the Trustee, in form satisfactory to the Trustee, a commitment from the Bank or the proposed provider of the Alternate Letter of Credit to deliver such amendment or Alternate Letter of Credit on or before the Interest Payment Date next preceding the current Expiration Date of the Letter of Credit; provided that if such amendment or Alternate Letter of Credit is not

delivered to the Trustee on or before such Interest Payment Date, an Event of Default shall be deemed to have occurred under the Indenture. The Bonds will be subject to mandatory tender for purchase on the Interest Payment Date on which an Alternate Letter of Credit is issued. (See "THE BONDS -- Mandatory Purchase of Bonds on Conversion Date; at End of Term Rate Period or Libor-CUBBS Rate Period; Upon Expiration of Letter of Credit; Upon Issuance of Alternate Letter of Credit; and at Direction of Bank" herein.)

Each drawing honored by the Bank under the Letter of Credit shall immediately reduce the principal component, premium component (if any) and/or the interest component (as the case may be) of the amount available under the Letter of Credit by the amount of such drawing, and the aggregate amount available under the Letter of Credit shall be correspondingly reduced. In the case of a reduction resulting from a drawing to pay Bond interest, the interest component shall be reinstated automatically by the amount of such drawing immediately following the Bank's honoring of such drawing.

The amount available under the Letter of Credit and the respective principal, premium (if any) and interest components thereof shall also be reduced automatically following the payment of the principal of the Bonds pursuant to the Indenture, upon receipt by the Bank from the Trustee of a certificate in the form prescribed by the Letter of Credit, each such reduction to be in the amount necessary to reduce the amount available under the Letter of Credit and the principal, premium (if any) and interest components thereof to the respective amounts specified by the Trustee in such certificate.

If a Bank proposes to amend a Letter of Credit, the Trustee may consent thereto, provided that (a) if such proposal would amend such Letter of Credit in such a way as would materially adversely affect the interests of the Holders of the Bonds, the Trustee shall notify the Holders of the Bonds and the Rating Service (if the Bonds are then rated by a Rating Service) of the proposed amendment and the Trustee may consent thereto only with the prior written consent of Holders of a majority in aggregate principal amount of the Bonds then Outstanding and the confirmation by such Rating Service that such amendment will not result in a withdrawal or reduction of its rating of the Bonds and (b) the Trustee shall not, without the unanimous consent of all Holders, consent to any amendment materially adversely affecting the interests of the Holders which would decrease or delay the amounts payable under the Letter of Credit in respect of Outstanding Bonds on any Interest Payment Date or on any date of redemption, acceleration, payment at maturity or purchase of the Bonds, or advance the stated Expiration Date of the Letter of Credit to an earlier date. No consent of the Holders shall be required for amendments to the Letter of Credit which are provided for or contemplated by the Indenture. "Rating Service" means Moody's, if the Bonds are rated by such at the time, and S&P, if the Bonds are rated by such at the time, and their successors and assigns, or if either shall be dissolved or no longer assigning credit ratings to long term debt, then any other nationally recognized entity assigning credit ratings to long term debt designated by the Authority or the Borrower and satisfactory to the Trustee.

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

The following summarizes certain provisions of the Letter of Credit Reimbursement Agreement between the Bank and the Borrower pursuant to which the Letter of Credit is being issued with respect to the Bonds. Reference is made to the Letter of Credit Reimbursement Agreement for the details of the provisions thereof.

Under the Letter of Credit Reimbursement Agreement, the Bank agrees to issue the Letter of Credit to the Trustee concurrently with the issuance and delivery of the Bonds, and the Borrower agrees to reimburse the Bank, with interest, for each drawing under the Letter of Credit.

The Borrower's obligations under the Letter of Credit Reimbursement Agreement may be secured by, among other things, a security interest in the Borrower's Pledged Revenues (as defined in the Loan Agreement).

The Letter of Credit Reimbursement Agreement sets forth various representations, warranties and covenants of the Borrower, including, without limitation, representations, warranties and covenants relating to maintenance of existence, compliance with laws, maintenance of insurance, compliance with the Loan Agreement and other contracts, maintenance of properties, reporting requirements, certain financial covenants and covenants relating to the acquisition and construction of the Project.

The Letter of Credit Reimbursement Agreement defines certain events of default thereunder, including, without limitation, the failure to pay to the Bank any reimbursement or other sum due under the Letter of Credit Reimbursement Agreement; the failure to comply with any covenant thereunder or under any mortgage or security agreement or other security given for the Borrower's performance under the Letter of Credit Reimbursement Agreement; the material breach of a representation or warranty; the occurrence of an event of default as defined in the Loan Agreement or the Indenture; an event of bankruptcy with respect to the Borrower; entry of a judgment for payment of money in an aggregate amount which, if paid, would have a material adverse effect on the Borrower; or the occurrence of an event of default with respect to other indebtedness of the Borrower.

The Letter of Credit Reimbursement Agreement provides that if an event of default has occurred and is continuing uncured under such Letter of Credit Reimbursement Agreement, the Bank, among other things, may:

(i) Notify the Trustee of such event of default; direct the Trustee to declare an event of default, as defined in the Indenture, to call the Bonds for mandatory purchase or declare the principal of the Bonds immediately due and payable and to draw on the Letter of Credit; and direct the Trustee to exercise remedies under the Loan Agreement and Indenture;

(ii) Declare the Borrower's obligations under the Letter of Credit Reimbursement Agreement to be, whereupon the same shall become, immediately due and payable;

(iii) Require the recording of a mortgage in favor of the Trustee in accordance with the terms of the Intercreditor Agreement; and

(iv) Exercise, or cause to be exercised, any and all such remedies as it may have under the Letter of Credit Reimbursement Agreement, the Bonds, the Indenture, the Loan Agreement or any other document or at law or in equity.

The Letter of Credit Reimbursement Agreement may contain covenants and conditions that are more restrictive with respect to the Borrower's activities and with respect to events or circumstances that are events of default under the Letter of Credit Reimbursement Agreement than are contained in the Loan Agreement or Indenture. The covenants and remedies in the Letter of Credit Reimbursement Agreement are for the sole protection of the Bank and not the Bondholders, and may be waived or amended by the Bank without restriction or notice. No assurance can be given as to the ability of the Borrower to comply with its covenants in the Letter of Credit Reimbursement Agreement. Bondholders are not entitled to assume that the Borrower is initially, or at any time after the issuance of the Bonds, in compliance with any or all of its covenants under the Letter of Credit Reimbursement Agreement.

## **THE REMARKETING AGREEMENT**

The following summarizes certain provisions of the Remarketing Agreement between the Borrower and the Remarketing Agent. The Remarketing Agent will act as Remarketing Agent when the Bonds are in the Weekly Mode, the Libor-CUBBS Mode, or the Term Mode.

Upon written notice to the Remarketing Agent pursuant to the Indenture of an optional tender for purchase by a holder of Outstanding Bonds in the Weekly Mode, and in the case of Bonds which are subject to mandatory purchase upon conversion from one Rate Mode to another Rate Mode and at the end of each Term Rate Period and Libor-CUBBS Rate Period, the Remarketing Agent will, subject to certain conditions, use its best efforts to arrange for the remarketing of the Bonds at par plus accrued interest.

In certain circumstances, the Remarketing Agent may, at its option, purchase for its own account Bonds tendered for purchase. If the Remarketing Agent shall purchase Bonds as aforesaid, the Remarketing Agent shall have all of the rights of an owner of the Bonds with respect thereto, including the right to tender the Bonds for purchase.



The Remarketing Agent's responsibilities under the Remarketing Agreement include (i) the remarketing of tendered Bonds to investors selected by the Remarketing Agent and (ii) the determination of the Weekly Rate, the Libor-CUBBS Rate or the Term Rate, as applicable, to be borne by the Bonds as set forth in the Indenture. The Remarketing Agent has no obligation to find purchasers for and arrange for the sale of Bonds on or after a mandatory purchase of the Bonds in anticipation of the expiration of the Letter of Credit or at the direction of the Bank or to make any effort to such end, except to the extent the Remarketing Agent shall have expressly and specifically agreed in writing with the Borrower to perform such duties.

Reference is made to the Remarketing Agreement for the details of the provisions thereof.

## DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in the summaries of the Loan Agreement and Indenture set forth below. All capitalized terms used herein and not otherwise defined in this Official Statement, shall have the same meanings as set forth in the Indenture or Loan Agreement.

**"Alternate Letter of Credit"** means an irrevocable letter of credit authorizing drawings thereunder by the Trustee, issued by a national banking association, a bank, a trust company or other financial institution, and satisfying the requirements of the Indenture.

**"Audited Financial Statements"** means financial statements prepared in accordance with GAAP which have been examined and reported on by an independent certified public accountant.

**"Balloon Debt"** means debt 25% or more of the principal amount of which comes or may come due in any one Fiscal Year by maturity, mandatory sinking fund redemption or optional or mandatory tender by the holder thereof.

**"Bank"** means TD Bank, N.A. as the issuer of the Letter of Credit, and its successors and assigns in that capacity and, in the event an Alternate Letter of Credit is outstanding, the issuer of the Alternate Letter of Credit and its successors and assigns in that capacity.

**"Bond Counsel"** means an attorney-at-law or a firm of attorneys of nationally recognized standing in matters pertaining to the exclusion from gross income for federal income tax purposes of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

**"Bond Documents"** means the Loan Agreement, the Indenture, the Bonds and all other documents executed by the Borrower or the Authority in connection therewith, including but not limited to any Continuing Disclosure Agreement entered into by the Borrower.

**"Bondholder" or "Holder" or "Registered Owner" or "Owner"** of Bonds means the registered owner of any Bond.

**"Borrower Facilities"** shall mean the buildings, structures, real estate and any appurtenant facilities, equipment and fixtures currently owned or hereafter acquired by the Borrower, used or useful by the Borrower in connection with or incidental to its functioning as an institution of higher learning.

**"Certificate"** means a certificate or report, in form and substance reasonably satisfactory to the Authority and the Trustee, executed: (a) in the case of an Authority Certificate, by an Authority Representative; (b) in the case of a Borrower Certificate, by a Borrower Representative; and (c) in the case of a Certificate of any other Person, by such Person, if an individual, and otherwise by an officer, partner or other authorized representative of such Person; provided that in no event shall any individual be permitted to execute any Certificate in more than one capacity.

**"Consultant"** shall mean a Person, who shall be Independent, appointed by the Borrower or the Authority, as the case may be, generally recognized as qualified to pass upon the matters under consideration and having a favorable reputation for skill and experience in such matters.

**"Core Campus"** means the Borrower's main campus, including an approximate 160-acre parcel in Gwynedd Valley, Montgomery County, Pennsylvania, bounded by Bethlehem Pike, Summneytown Pike and Evans Road, and all buildings, facilities and personal property of the Borrower now or hereafter located thereon.

**"CUBBS"<sup>SM</sup>** shall mean College and University Bank Bond Securities and refers to the Bonds while in the Libor-CUBBS Mode.

**"Debt Service Requirement,"** with reference to a specified period, shall mean:

a. interest payable on Long-Term Indebtedness during the period, excluding (i) interest funded from the proceeds thereof and (ii) interest on Long-Term Indebtedness to be redeemed during such period through any sinking fund account which would otherwise accrue after the redemption date;

b. amounts required to be paid into any mandatory sinking fund account for Long-Term Indebtedness during the period;

c. amounts required to pay the principal of Long-Term Indebtedness maturing during the period and not to be redeemed prior to maturity through any mandatory sinking fund account; and

d. in the case of Long-Term Indebtedness in the form of a lease capitalized under GAAP, the lease rentals payable during the period;

provided, however, that (i) in the case of Variable Rate Debt, interest shall be calculated, in any projection of Debt Service Requirement for a future period, (A) if the debt has been outstanding for at least 24 months, at 120% of the average interest rate on such debt during the most recent 24-month period, (B) if such debt has been outstanding for at least 12 months but less than 24 months, at the higher of 100% of the average interest rate on such debt for the most recent 12-month period or the rate in effect on the date of calculation, and (C) if such debt has been outstanding for less than 12 months, at a rate equal to 100% of (1) the average Bond Market Association Swap Index for the preceding 24 months, if such debt is tax-exempt debt, and (2) the average rate for one-month LIBOR for the preceding 24 months, if such debt is taxable debt, (ii) in the case of Balloon Debt, such debt shall be assumed to amortize on a level debt service basis over a period of 20 years or the actual remaining term to maturity, whichever is less, unless a binding commitment to refinance such debt upon maturity has been provided by a financial institution rated at least "A2" from Moody's or "A" from S&P, in which case such debt will be assumed to mature in accordance with the terms of such binding commitment, (iii) interest payable shall be reduced by the amount of any interest subsidy which a Federal, state or local government is irrevocably committed to pay for the period in question, and (iv) the Debt Service Requirement on any Long Term Indebtedness in the form of a guaranty of the indebtedness of others shall be deemed equal to (A) 25% of the annual principal and interest requirements on the indebtedness being guaranteed during each Fiscal Year if the guaranteed entity had Net Revenues Available for Debt Service at least equal to 150% of the annual debt service on its long-term debt in its latest fiscal year, (B) 50% of the annual principal and interest requirements on the indebtedness being guaranteed during each Fiscal Year if the guaranteed entity had Net Revenues Available for Debt Service at least equal to 125% but less than 150% of the annual debt service on its long-term debt in its latest fiscal year, (C) 75% of the annual principal and interest requirements on the indebtedness being guaranteed during each Fiscal Year if the guaranteed entity had Net Revenues Available for Debt Service at least equal to 110% but less than 125% of the annual debt service on its long-term debt in its latest fiscal year, and (D) 100% of the annual principal and interest requirements on the indebtedness being guaranteed during each Fiscal Year if the guaranteed entity had Net Revenues Available for Debt Service below 110% of the annual debt service on its long-term debt in its latest fiscal year or if the Borrower has made a payment on the guaranteed entity's debt during any of the last three Fiscal Years.

---

<sup>SM</sup>\*CUBBS is a service mark of the Association of Independent Colleges and Universities of Pennsylvania.

**"Expiration Date"** means the stated expiration date of the Letter of Credit, as such date may be extended from time to time by the Bank.

**"GAAP"** means generally accepted accounting principles as defined more specifically in the Loan Agreement.

**"Government Obligations"** means (i) U.S. Treasury certificates, notes and bonds (including State and Local Government Series (SLGS)), (ii) direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury, and (iii) obligations issued by the following agencies which are backed by the full faith and credit of the United States of America: U.S. Export-Import Bank (direct obligations or fully guaranteed certificates of beneficial ownership), Farmers Home Administration, Federal Financing Bank, General Services Administration (participation certificates), U.S. Maritime Administration (guaranteed Title XI financing), and U.S. Department of Housing and Urban Development (project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds).

**"Intercreditor Agreement"** means the Intercreditor Agreement dated as of May 1, 2008, as amended and supplemented by Supplement No. 1 dated as of May 1, 2012 and Supplement No. 2 dated as of April 1, 2017, among the Trustee, The Bank of New York Mellon Trust Company, N.A., as trustee for the Other Bonds, TD Bank, N.A., as issuer of the Letter of Credit, and the Borrower, as the same may be further amended or supplemented from time to time, or any other intercreditor agreement entered into with respect to the Bonds and any Parity Indebtedness.

**"Letter of Credit"** means the Letter of Credit issued by TD Bank, N.A. to the Trustee at the time of initial issuance and delivery of the Bonds, and any Alternate Letter of Credit, under which the Trustee is authorized, subject to the terms and conditions thereof, to draw up to (a) an amount equal to the principal amount of the outstanding Bonds (i) to enable the Trustee to pay the principal amount of the Bonds when due at maturity, upon redemption or upon acceleration and (ii) to enable the Trustee to pay the portion of the purchase price of Bonds tendered to it and not remarketed corresponding to the principal amount of such Bonds, plus (b) while the Bonds bear interest at a Weekly Rate or a Libor-CUBBS Rate, an amount equal to interest to accrue at the Maximum Rate on the outstanding Bonds for 37 days and, while the Bonds bear interest at a Term Rate, an amount equal to interest to accrue at a rate not less than the Term Rate then in effect on the outstanding Bonds for 210 days (i) to enable the Trustee to pay interest on the Bonds when due and (ii) to enable the Trustee to pay the portion of the purchase price of Bonds tendered to it and not remarketed corresponding to the accrued interest on such Bonds, as the same may be amended, transferred, reissued or extended in accordance with the Indenture, plus (c) while the Bonds bear interest at a Term Rate, an amount equal to the sum of the redemption premium (if any) which would become payable on the Bonds upon mandatory redemption if such irrevocable letter of credit or Alternate Letter of Credit were not extended beyond the Expiration Date set forth therein.

**"Letter of Credit Reimbursement Agreement"** means the Letter of Credit Reimbursement Agreement or any other letter of credit agreement or reimbursement agreement between the Borrower and the Bank relating to the Letter of Credit and the Bonds, as amended, supplemented or replaced from time to time.

**"Loan Payments"** means the amounts required to be paid by the Borrower in repayment of the loan of Bond proceeds pursuant to the Loan Agreement.

**"Long-Term Indebtedness"** shall mean all obligations for the payment of money (including, without limitation, all Bonds), incurred, assumed or guaranteed by the Borrower, whether due and payable in all events, or upon the performance of work, the possession of property as lessee or the rendering of services by others, except:

- a. Short-Term Indebtedness;
- b. current obligations payable out of current revenues, including current payments for the funding of pension plans;

c. obligations under contracts for supplies, services, and pensions, allocable to current operating expenses of future years in which the supplies are to be furnished, the services rendered, or the pensions paid;

d. rentals payable in future years under leases not required to be capitalized under GAAP;

e. Non-Recourse Indebtedness (as described under the heading "THE LOAN AGREEMENT – Incurrence of Additional Indebtedness") or any other obligation secured solely by and paid solely from sources other than Pledged Revenues; and

f. Student Loan Guarantees complying with the requirements described under the heading "THE LOAN AGREEMENT – Student Loan Guarantees," except to the extent includable as Long-Term Indebtedness under the provisions thereof.

**"Maximum Annual Debt Service Requirement"** shall mean, with respect to any Long-Term Indebtedness, the maximum Debt Service Requirement for any one Fiscal Year during the remaining life of such Long-Term Indebtedness.

**"Moody's"** means Moody's Investors Service, Inc., a Delaware corporation, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated in writing by the Borrower.

**"Net Revenues Available for Debt Service"** shall mean, for any period, the sum of (i) unrestricted revenues (operating and nonoperating) less unrestricted expenses (operating and nonoperating), exclusive of unrealized and realized gains and losses on long-term investments, (ii) all interest expense of the Borrower for such period with respect to Long-Term Indebtedness, (iii) all depreciation expense for such period, and (iv) all other funds of the Borrower which are legally available to be used for the payment of debt service; provided that no determination of Net Revenues Available for Debt Service shall take into account any disposition of capital assets not in the ordinary course of business to the extent otherwise included in the foregoing calculations of revenue and expenses, any other gains or losses resulting from changes in accounting principles not involving the receipt or expenditure of cash, or any other non-operating, non-cash expenses.

**"Outstanding"** in connection with the Bonds, means, as of the time in question, all Bonds authenticated and delivered under the Indenture, except: (i) bonds cancelled upon surrender, exchange or transfer, or cancelled because of payment or redemption at or prior to that time; (ii) bonds paid pursuant to the Indenture; (iii) bonds, or the portion thereof, which are deemed to have been paid and discharged or caused to have been paid and discharged pursuant to the provisions of the Indenture; and (iv) bonds in substitution for which other Bonds have been authenticated under the Indenture. In determining whether the owners of a requisite aggregate principal amount of Bonds Outstanding have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions hereof, Bonds which are held by or on behalf of the Borrower (unless all of the Outstanding Bonds are then owned by the Borrower) shall be disregarded for the purpose of any such determination.

**"Parity Indebtedness"** means the existing indebtedness as of the date of issuance of the Bonds that is described under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Parity Indebtedness" and any additional indebtedness secured on a parity with the Bonds in accordance with the Loan Agreement.

**"Permitted Encumbrances"** shall mean, with respect to the Pledged Revenues and the Borrower Facilities as of any particular time, (i) liens arising by reason of good faith deposits by the Borrower in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by the Borrower to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges; (ii) liens arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose as required by law or regulation (A) as a condition to the transaction of any business or the exercise of any privilege or license, or (B) to enable to Borrower to maintain self-insurance or to

participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, or pension or profit sharing plans or other social security plans or programs, or to share in the privileges or benefits required for companies participating in such arrangements; (iii) any judgment lien against the Borrower, so long as the finality of such judgment is being contested and execution thereon is stayed and (A) provision for payment of the judgment has been made in accordance with applicable law or by the deposit of cash or investments with a commercial bank or trust company or (B) adequate insurance coverage is available to satisfy such judgment; (iv) such defects, irregularities, encumbrances, utility easements, access and other easements and rights of way, restrictions, exceptions and clouds on title which do not have a material and adverse effect on the interests of the holders of Bonds and do not materially interfere with or impair the operations of the Borrower; (v) any mechanic's, laborer's, materialman's, supplier's or vendor's lien or right in respect thereof if payment is not yet due under the contract in question or if such lien is being contested in good faith; (vi) such minor defects and irregularities of title as normally exist with respect to facilities similar in character to the Borrower Facilities and which do not have a material and adverse effect on the value of, or materially impair, the Borrower Facilities affected thereby for the purpose for which they were acquired or are held by the Borrower; (vii) zoning laws and similar restrictions which are not violated by the Borrower Facilities affected thereby; (viii) all right, title and interest of the Commonwealth, municipalities and the public in and to tunnels, bridges and passageways over, under or upon a public way; (ix) liens on property received by the Borrower through gifts, grants or bequests, such liens being due to restrictions on such gifts, grants or bequests or property or income thereon; (x) liens for taxes, special assessments, or other governmental charges not then delinquent or being contested in good faith; (xi) liens and encumbrances permitted as described herein under the heading "THE LOAN AGREEMENT – Security for Indebtedness;" (xii) any lien or mortgage on and /or security interest in the Borrower Facilities, provided that the Borrower shall grant to the Trustee a mortgage of equal priority on and/or security interest in the same property to secure the Loan Agreement; (xiii) liens on goods and equipment as normally exist with respect to facilities similar in character to the Borrower Facilities; and (xiv) liens and encumbrances securing indebtedness existing on the date of issuance of the Bonds and identified on an Exhibit attached to the Loan Agreement.

**"Permitted Investments"** means any of the following investments, if and to the extent the same are at the time legal for investment of the funds held under the Indenture:

- (i) Government Obligations.
- (ii) obligations issued or guaranteed by any of the following agencies (stripped securities are only permitted if they have been stripped by the agency itself): Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (participation certificates or senior debt obligations), Federal National Mortgage Association (mortgage-backed securities and senior debt obligations), Student Loan Marketing Association (senior debt obligations), Resolution Funding Corp., and Farm Credit System (consolidated system-wide bonds and notes).
- (iii) Certificates of deposit issued by commercial banks, savings and loan associations or mutual savings banks which certificates of deposit are secured at all times by collateral consisting of Government Obligations, including those of the Trustee or any of its affiliates. Such collateral must be held by a third party and the Trustee must have a perfected first security interest in the collateral.
- (iv) Certificates of deposit, including those placed by a third party pursuant to an agreement between the Trustee and the Borrower, savings accounts, deposit accounts or money market deposits which are fully insured by the Federal Deposit Insurance Corporation.
- (v) Federal funds or bankers acceptances with a maximum term of one year of any bank (including the Trustee or any of its affiliates) which has an unsecured, uninsured and unguaranteed obligation rating of "P-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.
- (vi) Obligations of a state, a territory, or a possession of the United States, or any political subdivision of any of the foregoing or of the District of Columbia as described in Section 103(a) of the Code if such obligations are rated by Moody's and S&P in one of the two highest rating categories assigned by such rating agencies.
- (vii) Commercial paper rated, at the time of purchase, not less than P-1 by Moody's and A-1 by S&P.

(viii) Any money market fund registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating at the time of investment by S&P of AAAM-G, AAA-m, or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2, or analogous ratings if such ratings are no longer being used by S&P or Moody's, including, without limitation, any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (1) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (2) the Trustee charges and collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (3) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates.

(ix) Investment agreements with, or which are guaranteed by, a financial institution which has an unsecured, uninsured and unguaranteed obligation rated, at the time such agreement is entered into, in one of the two highest rating categories by Moody's or S&P, or is the lead bank of a parent bank holding company with an uninsured, unsecured and unguaranteed obligation meeting such rating requirements, including any affiliate of the Trustee provided (i) interest is paid at least semi-annually at a fixed rate during the entire term of the agreement, consistent with the Interest Payment Dates, (ii) moneys invested thereunder may be withdrawn for any purpose required under the Indenture without any penalty, premium or charge upon not more than seven days' notice (provided such notice may be amended or cancelled at any time prior to the withdrawal date), (iii) the agreement is not subordinated to any other obligations of such financial institution or bank, (iv) the same guaranteed interest rate will be paid on any future deposits permitted to be made under such investment agreement, and (v) the Trustee receives an opinion of counsel that such agreement is an enforceable obligation of such financial institution.

**"Person"** means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, a governmental unit or agency, a political subdivision or instrumentality thereof, or any other group or organization of individuals.

**"Pledged Revenues"** shall mean all receipts, revenues, income and other moneys received by or on behalf of the Borrower from the operation, ownership or leasing of all Borrower Facilities, all gifts, grants, bequests, donations and contributions received by the Borrower, and all rights to receive the same whether in the form of accounts receivable, contract rights, chattel paper, instruments, general intangibles or other rights and the proceeds thereof, including any insurance proceeds and any condemnation awards derived therefrom, whether now existing or hereafter coming into existence and whether now owned or held or hereafter acquired by the Borrower in connection with the Borrower Facilities; provided, however, that there shall be excluded from Pledged Revenues: gifts, grants, bequests, donations and contributions heretofore or hereafter made, the application of the proceeds of which is designated or restricted at the time of making thereof by the donor, payor or maker as being for certain specified purposes inconsistent with the application thereof to the payment of Loan Payments under the Loan Agreement or not subject to pledge, or subsequent to the receipt thereof, so designated or restricted by the Borrower in order to meet the requirements of any challenge grant received by the Borrower, and the income derived therefrom to the extent that it is permanently restricted in or by such designation or restriction or by law.

**"Project Costs"** means costs of the Project permitted under the Act, including, but not limited to, the following:

(a) Costs incurred in acquisition, construction, renovation, installation, equipment or improvement of the Project Facilities and the other portions of the Project, including costs incurred for preliminary planning and studies; architectural, engineering, accounting, consulting, legal and other professional fees and expenses; labor, services and materials;

(b) Fees, charges and expenses incurred in connection with the authorization, sale, issuance and delivery of the Bonds, including without limitation bond discount, printing expense, title insurance, recording fees and the initial fees and expenses of the Trustee and the Authority;

(c) Payment of interest on the Bonds and fees and expenses of the Trustee accruing during the period when the Project Facilities are under construction;

(d) Any other costs, expenses, fees and charges properly chargeable to the cost of acquisition, construction, installation, equipment or improvement of the Project; and

(e) Costs and expenses involved in repaying any Person that provided interim financing to the Borrower in order to pay any of the costs described in clauses (a) through (d) above in connection with the Project.

**"Project Facilities"** means the facilities financed or refinanced with proceeds of the Bonds.

**"Rating Service"** means Moody's, if the Bonds are rated by such at the time, and S&P, if the Bonds are rated by such at the time, and their successors and assigns, or if either shall be dissolved or no longer assigning credit ratings to long term debt, then any other nationally recognized entity assigning credit ratings to long term debt designated by the Authority and satisfactory to the Trustee.

**"Refunding Indebtedness"** means indebtedness issued for the purpose of refunding other Long-Term Indebtedness.

**"Semiannual Date"** means each May 1 and each November 1.

**"Semiannual Period"** means a six month period commencing on a Semiannual Date and ending on and including the day immediately preceding the next Semiannual Date.

**"Short-Term Indebtedness"** shall mean all obligations of the Borrower for the repayment of borrowed money having a final maturity of less than one year from the date incurred, excluding the current portion of any Long-Term Indebtedness.

**"S&P"** means S&P Global Ratings, a Standard & Poor's Financial Services LLC business, its successors and assigns, and, if such rating agency shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated in writing by the Borrower.

**"Student Loan Guarantees"** shall mean any guarantees by the Borrower of the primary obligations of students enrolled at the Borrower to repay loans made to them, or any guarantee by the Borrower of obligations incurred by other parties to finance loans to or for the benefit of such students.

**"Total Operating Revenues"** means the aggregate of all unrestricted operating revenues of the Borrower less applicable deductions from unrestricted operating revenues (but before deduction of operating expenses) as determined in accordance with GAAP.

**"Trust Estate"** means the Loan Agreement, the Loan Payments, the Funds and Accounts created under the Indenture, Revenues (as defined in the Indenture, and which include certain investment income and certain moneys paid to the Trustee under a Letter of Credit), and the other right, title and interest assigned, transferred and pledged or intended so to be to the Trustee under the Indenture.

**"Variable Rate Debt"** shall mean indebtedness which bears interest at a variable, adjustable, or floating rate.

## **THE LOAN AGREEMENT**

The following description of certain provisions of the Loan Agreement is only a brief outline of some of the provisions thereof and does not purport to summarize or describe all of the provisions thereof. Reference is made to the Loan Agreement, a copy of which is on file at the corporate trust office of the Trustee in Philadelphia, Pennsylvania, for a complete statement of these provisions and other provisions which are not summarized in this Official Statement.

## **General**

The Loan Agreement provides for the financing by the Authority of the Project and a loan of the proceeds of the Bonds from the Authority to the Borrower. Under the Loan Agreement, the Authority, at the request of the Borrower, will obtain funds necessary to finance the Project through the issuance and sale of the Bonds and concurrently therewith, the proceeds shall be deposited in the Project Fund and applied to the costs of the Project. The Borrower agrees to repay the loan in installments corresponding to the principal or redemption price of and interest on the Bonds.

## **Loan Payments**

To provide funds to pay the principal or redemption price of and interest on the Bonds when due, the Borrower will make Loan Payments to the Trustee corresponding, as to amounts, to the principal or redemption price of and interest on the Bonds, such payments to be made at least ten days before the corresponding dates for payments on the Bonds, in the case of Bonds in a Term Mode, or one Business Day before the corresponding date for payment on the Bonds, in the case of Bonds in the Weekly Mode or a Libor-CUBBS Mode. The Borrower will also pay the administrative fees and expenses of the Authority and the Trustee as provided in the Loan Agreement.

Amounts received upon a drawing by the Trustee under a Letter of Credit, if any, for the payment of debt service shall be credited against the Loan Payments otherwise payable by the Borrower corresponding to such debt service; provided that the Bank has been fully reimbursed for such drawing by the Borrower. The Borrower shall also be entitled to credits against the Loan Payments as and to the extent provided in the Indenture.

## **Pledge of Revenues**

As security for the Borrower's obligation to make payments required under the Loan Agreement and to make all other payments due and perform all other obligations under the Loan Agreement, the Borrower pledges, assigns and grants to the Trustee, as assignee of the Authority, a lien on and a security interest in its Pledged Revenues. The existence of such pledge and security interest will not prevent the expenditure, deposit or commingling of the Pledged Revenues by the Borrower so long as all required payments under the Loan Agreement are made when due. If any required payment is not made when due or an Event of Default shall have occurred under the Loan Agreement, any Pledged Revenues subject to such security interest which are then on hand and not yet commingled with other funds of the Borrower, and any such Pledged Revenues thereafter received, shall not be commingled or deposited but shall immediately be paid over to the Trustee.

## **Purchase Payments**

To the extent that moneys on deposit in the Remarketing Proceeds Purchase Account or, if a Letter of Credit is in effect, the Letter of Credit Purchase Account established under the Indenture are insufficient to pay the full purchase price of Bonds payable pursuant to the Indenture on the applicable Purchase Date, the Borrower shall also pay to the Trustee as Purchase Payments for deposit in the Borrower Purchase Account established under the Indenture amounts sufficient to cover the shortfalls.

## **Letter of Credit**

The Borrower will cause the Letter of Credit to be issued to the Trustee as described herein under "THE INDENTURE – Letter of Credit – Delivery of Letter of Credit." The Letter of Credit may be extended, amended or replaced by an Alternate Letter of Credit complying with the provisions of the Indenture.

## **Maintenance of Existence**

The Borrower shall do all things necessary to preserve and keep in full force and effect its existence as a not-for-profit corporation under the laws of the Commonwealth and shall not (i) dissolve or otherwise sell, transfer or dispose of all, or substantially all, of its assets or (ii) consolidate with or merge into any other entity; provided that, subject to certain provisions of the Loan Agreement relating to the tax-exempt status of the Borrower and the



Bonds, the preceding restrictions shall not apply to a transaction to which the Authority consents in writing if the transferee or the surviving or resulting entity, if other than the Borrower, by written instrument satisfactory to the Authority and the Trustee, irrevocably and unconditionally assumes and agrees to perform and observe the agreements and obligations of the Borrower under the Loan Agreement and the provisions of the Loan Agreement described below under the heading "Assignment" are satisfied.

The Borrower covenants that it will maintain the necessary accreditation to enable it to maintain its authority to operate as an institution of higher education in the Commonwealth of Pennsylvania within the meaning of the Act.

#### **Compliance with Laws; Commencement and Continuation of Operations at Project Facilities; No Sale, Removal or Demolition of Project Facilities**

The Borrower will acquire, construct, install, operate and maintain the Project Facilities in such manner as to comply with the Act and all applicable requirements of federal, state and local laws and the regulations, rules and orders of any federal, state or local agency, board, commission or court having jurisdiction over the Project Facilities or the operation thereof, including without limitation applicable zoning, planning, building and environmental laws, regulations, rules and orders; provided that the Borrower shall be deemed in compliance with this covenant so long as it is contesting in good faith any such requirement by appropriate legal proceedings. The Borrower will not sell, assign or otherwise dispose of (whether in one transaction or in a series of transactions) its interest in the Project Facilities or any material portion thereof (other than as described above under the heading "Maintenance of Existence" and other than leases permitted as described below under the heading "Lease by Borrower") or undertake or permit the demolition or removal of the Project Facilities or any material portion thereof without the prior written consent of the Authority; provided that the Borrower shall be permitted to sell, transfer, assign or otherwise dispose of or remove any portion of the Project Facilities which is retired or replaced in the ordinary course of business.

#### **Lease by Borrower**

The Borrower may, subject to certain provisions of the Loan Agreement, including provisions relating to the tax-exempt status of the Borrower and the Bonds, lease the Project Facilities, in whole or in part, to one or more other Persons, provided that: (a) no such lease shall relieve the Borrower from its obligations under the Loan Agreement; (b) in connection with any such lease the Borrower shall retain such rights and interests as will permit it to comply with its obligations under the Loan Agreement; (c) no such lease shall impair materially the accomplishment of the purposes of the Act to be accomplished by operation of the Project Facilities as herein provided; (d) any such lease shall require the lessee to operate the Project Facilities as a "project" under the Act as long as the Bonds are outstanding; (e) in the case of a lease to a new lessee or an assignment of an existing lease to a new lessee of substantially all of the Project Facilities, such new lessee shall have been approved by the Authority (such approval not to be unreasonably withheld); and (f) the lessees under any such leases, including any leases in force on the date of issuance of the Bonds, shall be subject to certain terms and conditions of the Loan Agreement relating to the tax-exempt status of the Borrower and the Bonds.

#### **Financial Statements**

The Borrower shall cause its Annual Financial Statements for each Fiscal Year to be examined by an Independent Certified Public Accountant. A copy of such financial statements and the Independent Certified Public Accountant's report thereon shall be provided to the Authority and the Trustee within 60 days after release of such audited financial statements by the Borrower's Board of Trustees. The Trustee shall have no duty to examine or review such financial statements, shall not be considered to have notice of the contents of such statements or of a default or Event of Default under the Loan Agreement or under any other document based on such content and shall have no duty to verify the accuracy of such statements.

#### **Taxes, Other Governmental Charges and Utility Charges**

The Borrower shall pay, or cause to be paid before the same become delinquent, all taxes, assessments, whether general or special, and governmental charges of any kind whatsoever that may at any time be lawfully

assessed or levied against or with respect to the Project Facilities, including any equipment or related property installed or bought by the Borrower therein or thereon, and all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project Facilities. With respect to special assessments or other governmental charges that lawfully may be paid in installments over a period of years, the Borrower shall be obligated to pay only such installments as are required to be paid during the term of the Loan Agreement. The Borrower may, at its expense, in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom, unless the Authority or the Trustee shall notify the Borrower that, in the opinion of counsel selected by the Authority or the Trustee, by nonpayment of any such items the Project Facilities or any part thereof will be subject to loss or forfeiture, in which event such taxes, assessments or charges shall be paid promptly. The Borrower shall also comply at its own cost and expense with all notices received from public authorities with respect to the Project.

## **Insurance**

The Borrower covenants and agrees that it will continuously maintain insurance on its properties and against such risks (including casualty, accident and worker's compensation) , in such amounts and with such deductibles, as are consistent with customary coverage, as from time to time in effect, in connection with the operation of properties of type and size comparable to properties as maintained by entities similar to the Borrower; provided, that property and casualty coverage shall at all times be maintained in an amount at least equal to the outstanding principal amount of the Bonds.

In the event the property and liability insurance required by the preceding paragraph is not commercially available at a reasonable cost or has been otherwise provided, the Borrower may accept such substituted coverage, including coverage from a captive insurance company or a consortium, as is recommended by an independent insurance consultant, provided, however, that no Event of Default shall occur under the Loan Agreement if such substitute coverage is unavailable, and the Borrower makes a continuing good faith effort to secure the insurance or such substitute coverage, including self-insurance. For purposes of the foregoing, "independent insurance consultant" means a nationally recognized firm of insurance agents, brokers or consultants with experience and expertise in assessing the property and casualty and liability risks of the Borrower and, if applicable, assessing the risks associated with such substitute insurance coverage, and if the Borrower has coverage through a captive insurance company or a consortium, includes an independent insurance consultant retained by such captive insurance company or consortium.

The Borrower may self-insure solely for professional liability, employee health insurance, workers compensation insurance, unemployment insurance, commercial general liability insurance, automobile insurance, student health and accident insurance, directors and officers insurance, travel insurance, broadcasters liability insurance, publishers liability insurance, and excess liability insurance, so long as the Borrower's self-insurance plan provides for (i) the establishment by the Borrower of a separate segregated self-insurance fund funded in an amount confirmed as to sufficiency through the annual auditing process by an independent auditor or an insurance consultant or nationally recognized independent actuarial consultant employing accepted actuarial techniques and (ii) the establishment and maintenance of a claims processing and risk management program. If the Borrower elects to self-insure for professional liability, the Borrower shall within 150 days after the end of each Fiscal Year cause an independent insurance consultant or nationally recognized independent actuarial consultant to submit a report to the Trustee to the effect that such self-insurance plan maintains adequate reserves and has been adequately funded. For purposes of this provision, "independent insurance consultant" means a firm of insurance agents, brokers or consultants with experience and expertise in assessing the property and casualty and liability risks of the Borrower.

## **Damage to or Condemnation of Project Facilities**

In the event of damage, destruction or condemnation of part or all of the Project Facilities, the Borrower will either: (i) restore the Project Facilities or (ii) if permitted by the terms of the Bonds, direct the Authority to call the Bonds for optional redemption pursuant to the Indenture. Damage to, destruction of or condemnation of all or a portion of the Project Facilities shall not terminate the Loan Agreement or cause any abatement of or reduction in the payments to be made by the Borrower under the Loan Agreement.

## **Rate Covenant**

The Borrower covenants that it will establish, charge and collect tuition, student fees and charges for services provided by the Borrower such that Net Revenues Available for Debt Service will equal or exceed, in each Fiscal Year, 110% of the Debt Service Requirement for such Fiscal Year.

If, in any Fiscal Year, the Borrower fails to meet the foregoing covenant, it shall immediately retain a Consultant to make a report and recommendation with respect to such tuition, student fees and other charges, and with regard to operations of the Borrower. The Borrower further covenants that upon receipt of such report and recommendation from the Consultant, the Borrower shall cause copies thereof to be filed with the Trustee, and the Borrower shall within 60 days of the receipt of such report and recommendation describe in writing to the Trustee what action, if any, the Borrower shall take upon the report and recommendation of the Consultant. So long as the amount described in the preceding paragraph is equal to at least 100% of the Debt Service Requirement for the Fiscal Year in question, and provided that the Borrower does not fail to meet the foregoing rate covenant for two consecutive Fiscal Years, no Event of Default shall be deemed to have occurred under the Loan Agreement unless the Borrower shall have failed to take the foregoing steps.

## **Incurrence of Additional Indebtedness**

The Borrower covenants that it will not incur or assume additional Long-Term Indebtedness unless there is no Event of Default under the Loan Agreement or under the Indenture that has occurred and is continuing, and the Borrower delivers to the Trustee prior to such incurrence a Borrower Certificate in form acceptable to the Trustee demonstrating that, for each of the two most recent Fiscal Years for which Audited Financial Statements are available, the sum of Net Revenues Available for Debt Service plus, in the case of Long-Term Indebtedness incurred to finance the acquisition or construction of additional student residence facilities or other revenue producing facilities, an amount in each such Fiscal Year equal to the additional annual revenues in the form of room and board or other charges associated with such new facilities which are projected to be received following completion of such acquisition or construction, equaled or exceeded 125% of the Maximum Annual Debt Service Requirement for all Long-Term Indebtedness outstanding during such Fiscal Years and for the Long-Term Indebtedness proposed to be incurred.

Notwithstanding the foregoing, the following types of indebtedness may be incurred without meeting the foregoing requirements:

Refunding Debt. Refunding Indebtedness may be incurred without limitation provided that, except in the case of Refunding Indebtedness incurred to refund Variable Rate Debt, prior to such incurrence, the Borrower shall deliver to the Trustee a Borrower Certificate in form satisfactory to the Trustee demonstrating that the Maximum Annual Debt Service Requirements immediately following the incurrence of such Refunding Indebtedness is not more than 110% of the Maximum Annual Debt Service Requirements immediately prior to the incurrence of such Refunding Indebtedness.

Short-Term Indebtedness. The Borrower may, from time to time, incur or assume Short-Term Indebtedness in the ordinary course of business in any amount up to 20% of Total Operating Revenues for the preceding Fiscal Year, less any Short-Term Indebtedness then outstanding; provided, however, that no Short-Term Indebtedness shall be outstanding for a period of at least 15 consecutive calendar days in each Fiscal Year.

Student Loan Guarantees. The Borrower may incur indebtedness in the form of Student Loan Guarantees as described below under the heading "Student Loan Guarantees."

Non-Recourse Indebtedness. The Borrower may, from time to time, incur debt which is (i) incurred to finance additional capital projects; (ii) is nonrecourse debt secured solely by a lien on and security interest in the property financed by such debt and/or the revenues therefrom; and (iii) is a principal amount which, when added to the total principal amount of non-recourse indebtedness incurred pursuant to this paragraph and outstanding immediately after the incurrence of the new debt, is less than or equal to 15% of the Total Operating Revenues for the most recent Fiscal Year.

Purchase Money Financings. The Borrower may, from time to time, incur debt without complying with the debt incurring tests described above if such debt (i) is issued to finance the acquisition of machinery or equipment; (ii) is unsecured or secured solely by a purchase money security interest in the acquired machinery or equipment; and (iii) is in a principal amount which, when added to the total amount of indebtedness incurred pursuant to this paragraph and outstanding immediately after the incurrence of the new debt, is less than or equal to 15% of the Total Operating Revenues for the then most recent Fiscal Year.

## **Security For Indebtedness**

Any Long-Term Indebtedness or Short-Term Indebtedness hereafter incurred or assumed as described above under the caption "Incurrence of Additional Indebtedness" may be secured only as follows:

(i) In the case of Parity Indebtedness: (a) by a lien on and security interest in the Pledged Revenues ranking on a parity with the lien and security interest granted under the Loan Agreement as confirmed by the execution and delivery by the lender or holder of such debt of a joinder or other agreement by which such lender or holder shall be bound by the terms of the Intercreditor Agreement; or (b) by a lien or mortgage on and/or security interest in Borrower Facilities, provided that, if the Borrower grants a mortgage on or security interest in any part of the Project Facilities, the Borrower shall grant to the Trustee a mortgage of equal priority on and/or security interest in the same property to secure the Loan Agreement.

(ii) In the case of nonrecourse debt, solely by a lien on and/or security interest in the property financed with such debt and/or the revenues therefrom.

(iii) In the case of purchase money financings, solely by a purchase money security interest in machinery or equipment financed with such debt.

(iv) In the case of Student Loan Guarantees, solely by a lien or pledge upon Pledged Revenues subordinate and junior to the pledge of Pledged Revenues under the Loan Agreement.

(v) In the case of other Long-Term Indebtedness:

(A) by a lien, on and security interest in any property or interest in tangible property, real, personal, or mixed, other than the Borrower's Core Campus or the Pledged Revenues; or

(B) by a purchase money security interest in any real property, fixtures, machinery and equipment made part of the Borrower Facilities and revenues therefrom; or

(C) by a lien on and security interest in the Pledged Revenues subordinate to the lien and security interest granted under the Loan Agreement; provided, however, that no such permitted indebtedness shall be secured by the moneys and investments held by the Trustee in any Funds created under the Indenture.

(vi) Any Short-Term Indebtedness incurred pursuant to the Loan Agreement may be secured solely:

(A) by a purchase money security interest in personal property acquired with the proceeds thereof; or

(B) by a lien on or mortgage against any real or personal property not constituting Project Facilities; or

(C) by a lien on and security interest in the Pledged Revenues ranking on a parity with or subordinate to that granted under the Loan Agreement; provided, however, that (i) no such permitted indebtedness shall be secured by the moneys and investments in any Funds held by the Trustee under the Indenture; and (ii) if such lien and security interest shall rank on a parity with that granted under the Loan Agreement, the holder or a trustee acting on behalf of such holder shall have confirmed such parity lien and security interest by the execution

and delivery of a joinder or other agreement by which such holder or trustee shall be bound by the terms of the Intercreditor Agreement.

### **Student Loan Guarantees**

The Borrower may incur obligations in the form of Student Loan Guarantees which meet the following criteria upon compliance with the following requirements:

(i) The loans to students shall be made pursuant to a program, whether governmental or privately sponsored, for the purpose of providing aid to students for tuition, room and/or board, or other expenses associated with the attendance by the student at the Borrower's institution and which program shall require that the Borrower execute its Student Loan Guarantee.

(ii) In the case of a program which is fully funded, no part of the obligations guaranteed by the Borrower shall constitute Long-Term Indebtedness of the Borrower. A program shall be deemed to be "fully-funded" if the assets of the program are at least equal to its liabilities, without regard to the guarantee by the Borrower. In determining the assets of the program, full effect must be given to estimated anticipated losses on student repayments to the extent not insured and due provision shall have been made to cover any shortfall between the principal amount of the obligations and the proceeds thereof (i.e., "nonasset bonds"). The plan may be made fully-funded by deposits, bank letters of credit or other credit support facilities provided by the Borrower or others.

(iii) To the extent that a program is not fully funded as provided above, the amount by which the liabilities exceed the assets shall be determined and such amount shall constitute Long-Term Indebtedness of the Borrower for all purposes of the Loan Agreement and the proportionate part of the debt service requirements on such obligations represented by such deficiency shall be deemed to be part of the Debt Service Requirement. A program which at its commencement is not fully funded may nonetheless be demonstrated to have become fully funded at a later date at which time there shall cease to be any Long-Term Indebtedness attributable to such Student Loan Guarantees so long as it continues to be fully-funded.

(iv) The fully funded status of a program or the extent to which a program is not fully funded shall be determined by a Certificate of the Pennsylvania Higher Education Assistance Authority or other issuing governmental authority if such Certificate be obtainable, or in the alternative, shall be certified to by a Consultant, which may be the Certified Public Accountant regularly retained by the Borrower, which Certificate in any case shall set forth in full the basis of its determination.

(v) If a Consultant's Certificate or Certificate of the issuing agency is not available, as provided above, the extent to which the principal amount of the Student Loan Guarantees shall be considered Long-Term Indebtedness shall be determined by multiplying the principal amount of such Student Loan Guarantees by the average default ratio, during the three Fiscal Years preceding such Student Loan Guarantees, for university students participating in United States Government guaranteed student loans programs.

(vi) The guarantee by the Borrower may be secured only by a lien or pledge upon Pledged Revenues subordinate and junior to the pledge of Pledged Revenues under the Loan Agreement.

### **No Liens or Encumbrances**

The Borrower covenants and agrees that it will not grant any liens on the Pledged Revenues or the Borrower Facilities (whether real or personal, and whether owned as of the date of the Loan Agreement or acquired thereafter) except for Permitted Encumbrances.

### **Disposition of Assets**

The Borrower covenants and agrees that it will not sell, transfer or otherwise dispose of any property except as follows:

(i) The Borrower may transfer property constituting a portion of the Borrower Facilities having a net book value of not more than 5% of the Borrower's total unrestricted net assets shown on its most recent audited financial statements, provided that the Trustee receives a Borrower Certificate which states the Borrower's intended use of the proceeds of such transfer and that such transfer will not adversely affect the ability of the Borrower to meet its payment obligations under the Loan Agreement; or

(ii) If no Event of Default under the Loan Agreement shall have occurred and be continuing, the Borrower may, with or without consideration:

(A) transfer easements, licenses, rights of way (including the dedication of public highways) and other rights or privileges in the nature of easements with respect to any property included in the Borrower Facilities, or release existing easements, licenses, rights of way and other rights or privileges, all upon such terms and conditions as the Borrower shall determine; or

(B) transfer any property which has been replaced in the ordinary course of operations; or

(C) transfer tangible or intangible personal property, fixtures, or equipment from the Borrower Facilities in the ordinary course of business; or

(D) transfer real estate at any one time or during any Fiscal Year having a net book value alone or in the aggregate not in excess of 10% of the Borrower's net property, plant, and equipment as so determined; or

(E) transfer any property at any one time or during any Fiscal Year having a net book value alone or in the aggregate in excess of the amounts set forth in (i) and (ii)(D) above or not in the ordinary course of business, if the Borrower shall file with the Trustee a Certificate showing that the Borrower's total unrestricted net assets immediately after such transfer shall not be less than 90% of such total unrestricted net assets before such transfer, and stating that such transfer will not adversely affect the ability of the Borrower to meet its payment obligations under the Loan Agreement.

### **Tax Covenants of Borrower and Authority**

The Borrower covenants in the Loan Agreement that it will at all times do and perform all acts and things necessary or desirable and within its reasonable control in order to assure that interest paid on the Bonds shall be excludable from the gross income of the Holders thereof for federal income tax purposes and that it shall not take or omit to take, or permit to be taken on its behalf, any actions which, if taken or omitted, would adversely affect the excludability from the gross income of the Holders of interest paid on the Bonds for federal income tax purposes.

The Authority and the Borrower mutually covenant for the benefit of the Holders of the Bonds that they will not use the proceeds of the Bonds, any moneys derived, directly or indirectly, from the use or investment thereof or any other moneys on deposit in any fund or account maintained in respect of the Bonds in a manner which would cause such Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code or would otherwise violate the provisions of the Indenture relating to arbitrage.

The Borrower has covenanted that it will comply with various requirements of the Code pertaining to the excludability of interest on the Bonds from gross income of Holders thereof for federal income tax purposes, including, without limitation, that:

(a) it will take whatever actions are necessary for it to continue to be organized and operated in a manner which will preserve and maintain its status as an organization which is described in Section 501(c)(3) of the Code, exempt from federal income taxes under Section 501(a) of the Code and not a private foundation under Section 509(a) of the Code (or corresponding provisions of prior law), and it will not perform any acts nor enter into any agreements which would cause any revocation or adverse modification of such federal income tax status; and

(b) the Borrower will make such payments to the Trustee as are required of it under the Indenture in connection with the requirements of Section 148 of the Code concerning arbitrage bonds including Section 148(f),

which requires generally rebate payments to the United States of arbitrage profits, and to pay the costs and expenses of any Financial Consultant engaged in accordance with the Indenture to assist in calculating the amount of such rebate payments, if any.

### **Environmental Matters**

The Borrower covenants to comply in all material respects with all applicable federal, state and local laws, ordinances, rules and regulations pertaining to the environment (collectively, "Environmental Laws"), including, without limitation, those regulating hazardous or toxic wastes and substances (as such phrases may be defined in any Environmental Law), and to give prompt written notice to the Trustee and the Authority of any material violation or alleged material violation of any Environmental Law with respect to the Borrower's property. The Borrower will indemnify and defend the Authority and the Trustee and their respective directors, officers, employees and agents (the "Indemnified Parties"), and hold the Indemnified Parties harmless from, any loss, liability, damage, claim, fine, penalty, action or cause of action, including, without limitation, out-of-pocket and incidental expenses and court costs and reasonable attorney's fees and expenses and the allocated costs of in-house counsel and legal staff, consultants' fees and any clean-up or remediation costs, arising from any violation or alleged violation by the Borrower of any Environmental Law with respect to the Borrower's property.

### **Borrower's Use of the Project Facilities**

The Borrower will use the Project Facilities only in furtherance of the lawful purposes of the Borrower.

The Borrower further agrees that it will use the Project Facilities for secular instruction and will not use the Project as a facility used primarily in connection with any part of a program of a school or department of divinity for any religious denomination for the training of ministers, priests, rabbis or other similar persons in the field of religion or in a manner which would violate the First Amendment to the Constitution of the United States of America, including the decisions of the United States Supreme Court interpreting the same, or any comparable provisions of the Constitution of the Commonwealth, including the decisions of the Supreme Court of the Commonwealth interpreting the same. Notwithstanding the termination of the Loan Agreement, the Borrower agrees that it will continue to comply with the restriction stated in the preceding sentence on the sectarian use of the Project Facilities. To the extent required by law, the Borrower will permit the Authority to inspect the Project Facilities solely in order to determine whether the Borrower has complied with the provisions of this paragraph and such right of inspection shall survive the termination of the Loan Agreement.

The Borrower further agrees that it will not use the Project Facilities, or permit the Project Facilities to be used, in such manner as would result in the loss of any exemption from federal income taxation to which interest on the Bonds would otherwise be entitled.

### **Events of Default**

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

(a) failure to make payments under the Loan Agreement with respect to the principal or redemption price of and interest on the Bonds when the same shall become due and payable thereunder; or

(b) if the Borrower fails to make any other payment or deposit required under the Loan Agreement within thirty (30) days of the due date thereof; or

(c) if the Borrower fails to perform any of its other covenants, conditions or provisions under the Loan Agreement and such failure continues for thirty (30) days after the Authority or the Trustee gives the Borrower written notice thereof; provided, however, that if such performance requires work to be done, actions to be taken, or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such thirty (30) day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, the Borrower shall commence such performance within such thirty (30) day period and shall diligently and continuously prosecute the same to completion; or

(d) if the Borrower admits in writing its inability to pay its debts generally as they become due, or proposes or makes an assignment for the benefit of creditors or a composition agreement with all or a material part of its creditors, or a trustee, receiver, executor, conservator, liquidator, sequestrator or other judicial representative, similar or dissimilar, is appointed for the Borrower or any of its assets or revenues, or there is commenced any proceeding in liquidation, bankruptcy, reorganization, arrangements of debts, debtor rehabilitation, creditor adjustment or insolvency, local, state or federal, by or against the Borrower and if such is not vacated, dismissed or stayed on appeal within sixty (60) days; or

(e) if for any reason any of the Bonds shall be declared due and payable by acceleration in accordance with the terms of the Indenture; or

(f) the Borrower shall default in the payment of any indebtedness (other than amounts due under the Loan Agreement) with a principal amount in excess of \$1,000,000, and any period of grace with respect thereto shall have expired; or

(g) the occurrence of any default with respect to Parity Indebtedness subject to the Intercreditor Agreement as a result of which such Parity Indebtedness is declared immediately due and payable.

### **Remedies**

If acceleration of the principal amount of the Bonds has been declared pursuant to the Indenture, the Trustee shall declare all Loan Payments to be immediately due and payable, whereupon the same shall become immediately due and payable. In addition, if an Event of Default under the Loan Agreement has occurred and is continuing, the Authority (or the Trustee as its assignee) may, at its option, in addition to its other rights and remedies as may be provided in the Loan Agreement or may exist at the time at law or in equity, exercise any one or more of the following remedies:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Authority, and require the Borrower to carry out any agreements with or for the benefit of the Bondholders and to perform its duties under the Act or the Loan Agreement; or

(b) by action or suit in equity require the Borrower to account as if it were the trustee of an express trust for the Authority; or

(c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Authority; or

(d) upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bondholders, have appointed a receiver or receivers of the Trust Estate, with such powers as the court making such appointment shall confer: or

(e) upon notice to the Borrower, accelerate the due dates of all sums due or to become due under the Loan Agreement.

In order to entitle the Authority or the Trustee to exercise any remedy reserved to it in Loan Agreement concerning Events of Default and remedies, it shall not be necessary to give any notice, other than such notice as may be therein expressly required. Such rights and remedies as are given the Authority thereunder shall also extend to the Trustee. For so long as any Bonds remain Outstanding under the Indenture, and except with respect to the Borrower's obligations in respect of the Authority's rights to notices, payments of fees and expenses and indemnification rights and the Borrower's obligations to comply with the Act, the Trustee, as the assignee of the Authority, shall have the sole right to exercise rights and remedies against the Borrower upon the occurrence of any Event of Default under the Loan Agreement, and the exercise by the Trustee of such rights and remedies shall be subject to all applicable provisions of the Indenture, the Loan Agreement and the Act. To the extent necessary or appropriate and requested by the Trustee, the Authority shall cooperate with the Trustee in connection with the exercise by the Trustee of such rights and remedies against the Borrower.



## **Amendments**

The Authority and the Borrower may enter into any amendments and supplements to the Loan Agreement without the consent of Bondholders, but with prior notice to the Trustee, for the following purposes:

- (a) to cure any ambiguity, inconsistency, defect or omission in the Loan Agreement or in any amendment thereto;
- (b) to modify, eliminate or add to the provisions of the Loan Agreement to such extent as shall be necessary to obtain, maintain or improve a rating of the Bonds;
- (c) to add covenants of the Borrower or surrender rights or powers of the Borrower;
- (d) to make such additions, deletions or modifications as may be necessary in the case of any Bonds to assure compliance with Section 148(f) of the Code relating to the required rebate of certain investment earnings to the United States government or otherwise as may be necessary to assure exemption from federal income taxation of interest on the Bonds; or
- (e) in connection with any other change in the Loan Agreement if in the judgment of the Trustee in reliance on an opinion of Counsel (which may be Bond Counsel), the proposed change does not materially adversely affect the rights of the Holders of any Bonds.

Except for amendments, changes or modifications as provided in clauses (a) through (e) above, neither the Authority nor the Trustee shall consent to any amendment, change or modification of the Loan Agreement or waive any obligation or duty of the Borrower under the Loan Agreement without the written consent of the holders of not less than a majority in aggregate principal amount of the Outstanding Bonds affected thereby; provided, however, that no such waiver, amendment, change or modification shall permit termination or cancellation of the Loan Agreement or any reduction of the amounts payable under the Loan Agreement with respect to debt service on the Bonds or change the date when such payments are due without the consent of the Holders of all the Bonds then Outstanding who are adversely affected thereby.

## **Assignment**

The Borrower will not assign the Loan Agreement or any interest of the Borrower therein, either in whole or in part, without the prior written consent of the Trustee, which consent shall be given if the following conditions are fulfilled: (i) the assignee assumes in writing all of the obligations of the Borrower under the Loan Agreement; (ii) in the opinion of Borrower's counsel, neither the validity nor the enforceability of the Loan Agreement will be adversely affected by such assignment; (iii) the Project shall continue in the opinion of Bond Counsel to be a "project" as such term is defined in the Act after such assignment; (iv) such assignment will not, in the opinion of Bond Counsel, have an adverse effect on the exclusion from gross income for federal income tax purposes of interest on the Bonds; and (v) consent by the Authority, which consent shall not be unreasonably withheld.

## **THE INDENTURE**

The following description of certain provisions of the Indenture is only a brief outline of some of the provisions thereof, and does not purport to summarize or describe all of the provisions thereof. Reference is made to the Indenture, a copy of which is on file at the corporate trust office of the Trustee in Philadelphia, Pennsylvania, for a complete statement of these provisions and other provisions which are not summarized in this Official Statement.

## **The Trustee**

The obligations and duties of the Trustee are described in the Indenture and the Trustee has undertaken only those obligations and duties which are expressly set out in the Indenture. The Trustee has not independently passed upon the validity of the Bonds, the security therefor, the adequacy of the provisions for payment thereof or the tax-exempt status of the interest on the Bonds. The Trustee has relied upon the approving opinion of Bond

Counsel for the validity of the Bonds, and tax-exempt status of the interest on the Bonds, as well as other matters set out in that opinion. The Indenture expressly provides that, so long as the Trustee properly performs those obligations and duties which are expressly set out in the Indenture, the Trustee shall not be responsible for any loss or damage resulting from any action taken or omitted in good faith in reliance upon an opinion of counsel.

Under the terms of the Indenture, so long as the Trustee properly performs those obligations and duties, which are expressly set out in the Indenture, the Trustee is liable only for those damages caused by its gross negligence or willful misconduct. Under the Indenture, the Trustee is not required to take notice or be deemed to have notice of any event of default under the Indenture, except for the events of default described under items (a), (b), (c), (f) and (g) of the section herein entitled "THE INDENTURE -- Events of Default and Remedies," unless the Trustee has been specifically notified in writing of such event of default by the Authority, the Bank or the registered owners of at least 25% in aggregate principal amount of the Outstanding Bonds. All notices or other instruments required by the Indenture to be delivered to the Trustee must be delivered at the designated corporate trust office of the Trustee. In the absence of any such notice, the Trustee may conclusively assume that no event of default exists, except as expressly stated above and in the Indenture.

### **Pledge and Security**

In order to secure, first, the payment of the principal of, premium, if any, on and interest on the Bonds and the performance of the Authority's covenants in respect of the Bonds, and second, the payment and performance of the reimbursement and other obligations of the Borrower under the Letter of Credit Reimbursement Agreement, the Authority assigns and pledges to the Trustee pursuant to the Indenture:

(i) all right, title and interest (but not the obligations) of the Authority under and pursuant to the terms of the Loan Agreement, all Loan Payments and all other payments, revenues and receipts receivable by the Authority thereunder (except for the "Unassigned Rights" as defined in the Loan Agreement); and

(ii) all of the right, title and interest of the Authority in and to all funds (other than the Rebate Fund) and accounts established under the Indenture and all moneys and investments now or hereafter held therein and all present and future Revenues (as defined in the Indenture).

### **Bond Fund**

Under the Indenture, there is established with the Trustee a Bond Fund. Except as specifically directed in the Indenture, all Revenues received by the Trustee shall be deposited in the Bond Fund. Moneys held in the Bond Fund shall be made available (i) to pay the principal of, premium, if any, on or interest on Bonds, (ii) to pay any amount required to be paid into the Rebate Fund, to the extent other moneys are unavailable therefor, and (iii) if a Letter of Credit is in effect, to reimburse the Bank for drawings on the Letter of Credit to pay principal of, premium, if any, on or interest on Bonds. All moneys received by the Trustee from drawings under the Letter of Credit to pay principal of, premium, if any, on and interest on the Bonds shall be deposited in the Letter of Credit Debt Service Account of the Bond Fund and applied to such purpose.

"Available Moneys" as used herein and in the Indenture means (i) proceeds of a drawing under the Letter of Credit and (ii) any moneys paid to the Trustee and with respect to which the Trustee has received an opinion of nationally recognized counsel experienced in bankruptcy matters to the effect that the use of such moneys to pay principal of, premium, if any, on or interest on the Bonds will not constitute an avoidable transfer under Section 547 of the United States Bankruptcy Code in the event of a case under the United States Bankruptcy Code by the Authority or by or against the Borrower or any Affiliate of the Borrower (as defined in the Indenture), as debtor; provided that when used with respect to payment of amounts due in respect of any Pledged Bonds or Borrower Bonds, "Available Moneys" means any moneys held by the Trustee and available for such payment pursuant to the terms of the Indenture, except for moneys drawn under the Letter of Credit.

It is expected that payments of the principal of, premium, if any, on and interest on the Bonds will be made with proceeds of drawings on the Letter of Credit.

## **Project Fund**

Under the Indenture, a Project Fund is established and maintained with the Trustee for the payment of Project Costs. Disbursements from the Project Fund will be made in accordance with the procedures set forth in the Loan Agreement. Until applied to the payment of Project Costs, moneys in the Project Fund shall be held as security as described above.

## **Rebate Fund**

Under the Indenture, there is established with the Trustee a Rebate Fund which shall be held separate and apart from all other funds established under the Indenture; provided that the Trustee shall only be required to establish the Rebate Fund on its books at such time as it is first determined that there are Excess Earnings. There shall be deposited in the Rebate Fund amounts, if any, that are required to be rebated to the United States pursuant to Section 148(f) of the Code. All amounts in the Rebate Fund, including income earned from investment of the Rebate Fund, shall be held by the Trustee free and clear of the lien of the Indenture.

## **Letter of Credit**

Delivery of Letter of Credit. The Bonds will initially be secured by a Letter of Credit to be delivered to the Trustee on the date of issuance of the Bonds.

Extension or Replacement in Anticipation of Expiration. At least 45 days (or such shorter period as shall be acceptable to the Trustee in its sole discretion) prior to the Interest Payment Date next preceding the Expiration Date of the current Letter of Credit, the Borrower may provide for the delivery to the Trustee of (1) an amendment to the Letter of Credit which extends the Expiration Date to a date that is not earlier than three months from its then current Expiration Date and that follows an Interest Payment Date by not less than seven (7) calendar days and not more than fifteen (15) calendar days or (2) if the Bonds are in a Weekly Mode or if the Interest Payment Date next preceding the Expiration Date of the current Letter of Credit is a Libor-CUBBS Rate Period End Interest Payment Date or a Term Rate Period End Interest Payment Date, an Alternate Letter of Credit issued by a national banking association, a bank, a trust company or other financial institution or credit provider, which shall have terms which are the same in all material respects (except as to Expiration Date and except any changes pursuant to the Indenture with respect to interest or premium coverage in connection with a concurrent interest rate reset or conversion) as the current Letter of Credit and which shall have an Expiration Date that is not earlier than one year from the Expiration Date of the Letter of Credit then in effect and that follows an Interest Payment Date by not less than seven (7) calendar days and not more than fifteen (15) calendar days. The Borrower shall be deemed to have provided for such amendment extending the Letter of Credit or for such Alternate Letter of Credit if the Borrower shall have delivered to the Trustee, in form satisfactory to the Trustee, a commitment from the Bank or the proposed provider of the Alternate Letter of Credit to deliver such amendment or Alternate Letter of Credit on or before the Interest Payment Date next preceding the current Expiration Date of the Letter of Credit; provided that if such amendment or Alternate Letter of Credit is not delivered to the Trustee on or before such Interest Payment Date, an Event of Default shall be deemed to have occurred under the Indenture.

Any such amended Letter of Credit or Alternate Letter of Credit shall provide for drawings to pay up to (i) while the Bonds are in the Weekly Mode or the Libor-CUBBS Mode, an amount equal to the principal amount of the outstanding Bonds, plus 37 days interest thereon computed at 10% per annum, in the case of Bonds in the Weekly Mode, or 20% per annum, in the case of Bonds in a Libor-CUBBS Mode, in each case based on a 365-day year, and (ii) while the Bonds are in a Term Mode, an amount equal to the principal amount of the outstanding Bonds, plus 210 days interest thereon at a rate not less than the applicable Term Rate based on a 360-day year, plus an amount equal to the redemption premium (if any) which would become payable on the Bonds upon mandatory redemption if such amended Letter of Credit or Alternate Letter of Credit were not extended beyond the Expiration Date set forth therein.

The Trustee shall not accept an Alternate Letter of Credit unless there shall have been delivered to the Trustee (1) an opinion of counsel to the Bank satisfactory to the Trustee with respect to the validity, binding effect and enforceability of such Alternate Letter of Credit and (2) an opinion of Bond Counsel to the effect that such

action will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

If the Letter of Credit is extended as described above, the mandatory redemption or the mandatory purchase of the Bonds, as applicable, shall not occur. If an Alternate Letter of Credit is delivered, the Bonds will be subject to mandatory purchase. Unless all of the conditions described above which are required to be met 45 days (or such shorter period as shall be acceptable to the Trustee in its sole discretion) preceding the Interest Payment Date next preceding the Expiration Date of the Letter of Credit have been satisfied, the Trustee shall take all action necessary to call the Bonds for mandatory redemption, or mandatory purchase, as applicable, on the Interest Payment Date next preceding such Expiration Date; provided that if the Borrower shall have notified the Trustee in writing that it expects to meet all the conditions for the delivery of an amendment extending the existing Letter of Credit, or the delivery of an Alternate Letter of Credit from a bank identified in such notice, meeting all of the foregoing requirements on or before the Interest Payment Date next preceding the Expiration Date of the existing Letter of Credit, then the notice of mandatory redemption, or mandatory purchase, shall state that it is subject to rescission, and the Trustee shall rescind such notice, if such conditions are so met (in which case such mandatory redemption or mandatory purchase shall not occur).

Other Replacement. Except as provided in the following sentence, the Borrower may at any time provide for the delivery to the Trustee of an Alternate Letter of Credit which shall have terms which are the same in all material respects (except as to Expiration Date and except any changes pursuant to the Indenture with respect to interest or premium coverage in connection with a concurrent interest rate reset or conversion) as the current Letter of Credit. Notwithstanding the foregoing, if the Bonds are in a Term Mode, an Alternate Letter of Credit may be substituted for the then current Letter of Credit only on a Term Rate Period End Interest Payment Date. Such Alternate Letter of Credit shall (1) replace the then existing Letter of Credit on an Interest Payment Date, (2) have an Expiration Date that is not less than one year from the date of its delivery and not sooner than the Expiration Date of the current Letter of Credit then in effect and that follows an Interest Payment Date by not less than seven (7) calendar days and not more than fifteen (15) calendar days, (3) be issued by a national banking association, a bank, a trust company or other financial institution or credit provider, and (4) be accompanied by an opinion of counsel to the Bank satisfactory to the Trustee with respect to the validity, binding effect and enforceability of such Alternate Letter of Credit, and an opinion of Bond Counsel to the effect that the issuance of such Alternate Letter of Credit will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. The Borrower shall deliver to the Trustee at least 45 days (or such shorter period as shall be acceptable to the Trustee) prior to the proposed replacement of a Letter of Credit, the Alternate Letter of Credit or a commitment, in form satisfactory to the Trustee, from the Bank to deliver such Alternate Letter of Credit on the effective date thereof, together with the opinions referred to above.

Any Alternate Letter of Credit shall provide for drawings to pay up to (i) while the Bonds are in the Weekly Mode or the Libor-CUBBS Mode, an amount equal to the principal amount of the outstanding Bonds, plus 37 days interest thereon computed at the Maximum Rate based on a 365-day year, and (ii) while the Bonds are in a Term Mode, an amount equal to the principal amount of the outstanding Bonds, plus 210 days interest thereon at a rate not less than the applicable Term Rate based on a 360-day year. The Trustee shall take all action necessary to call the Bonds for mandatory purchase pursuant to the Indenture in connection with the delivery of an Alternate Letter of Credit.

Other Credit Enhancement; No Credit Enhancement. If a Letter of Credit is in effect, then after a mandatory purchase of the Bonds, nothing shall limit the Borrower's right to provide other credit enhancement or no credit enhancement as security for the Bonds; provided that any such credit enhancement shall have administrative provisions reasonably satisfactory to the Trustee and the Borrower shall have furnished to the Trustee with respect thereto an opinion of Bond Counsel to the effect that either (i) such action will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes or (ii) the interest on the Bonds is excluded from gross income for federal income tax purposes.

## **Investment of Funds**

The Indenture provides that, subject to certain exceptions, moneys in the Project Fund, the Bond Fund and the Rebate Fund will be invested at the written direction of the Borrower in Permitted Investments as defined in the Indenture.

Under the Indenture, the Authority covenants for the benefit of the Holders of the Bonds that (a) it shall take, or cause to be taken, all actions that may be required of it for the interest on the Bonds to be and remain excluded from the gross income of the Holders for federal income tax purposes, and shall not take any actions which would adversely affect that exclusion under the provisions of federal tax laws that apply to the Bonds; and (b) it will not act so as to cause the proceeds of the Bonds, any moneys derived, directly or indirectly, from the use or investment thereof and any other moneys on deposit in any fund or account maintained in respect of the Bonds (whether such moneys were derived from the proceeds of the sale of the Bonds or from other sources) to be used in a manner which could cause the Bonds to be treated as "arbitrage bonds" within the meaning of the Code. The Borrower by its execution of the Loan Agreement has covenanted to restrict the investment or other use of money in the funds created under the Indenture in such manner and to such extent, if any, as may be necessary, after taking into account reasonable expectations at the time the Bonds are delivered to their original purchaser, so that the Bonds will not constitute "arbitrage bonds" under the Code, and the Trustee, in the Indenture, agrees to comply with the Borrower's written instructions to such end with respect to the investment of money in the funds and accounts created under the Indenture.

## **Reports Regarding Borrower**

Under the terms of the Indenture, at the written request of any Holder or beneficial owner of Bonds, the Trustee shall (i) request the Borrower to provide the Trustee with copies of such financial statements and reports that the Trustee may be entitled to receive pursuant to the Loan Agreement and (ii) provide to such Holder or beneficial owner copies of any financial statements and reports received by the Trustee pursuant to the Loan Agreement. (See "THE LOAN AGREEMENT -- General Covenants of Borrower" herein.)

## **Events of Default and Remedies**

The Indenture provides that each of the following shall be an "Event of Default":

- (a) Failure to pay the principal of or premium, if any, on any Bond when due and payable, whether at the stated maturity thereof, by redemption, by acceleration or otherwise;
- (b) Failure to pay any interest on any Bond when due and payable;
- (c) Failure to pay the purchase price due to the Holder of any Bond who has tendered such Bond for purchase pursuant to the Indenture when such purchase price is due;
- (d) Failure by the Authority to comply with the provisions of the Act relating to the Bonds or the Project or to perform or observe any other covenant, agreement or obligation on its part to be observed or performed contained in the Indenture or the Bonds, which failure shall have continued for a period of 90 days after written notice has been given by registered or certified mail to the Authority, the Bank and the Borrower as provided in the Indenture, which notice may be given by the Trustee in its discretion and which notice must be given by the Trustee at the written request of the Holders of not less than 25% in aggregate principal amount of Bonds Outstanding;
- (e) The occurrence and continuance of an "Event of Default" as defined in the Loan Agreement (see "THE LOAN AGREEMENT -- Events of Default" herein);
- (f) Receipt by the Trustee of a written notice from the Bank stating that an event of default has occurred under the Letter of Credit Reimbursement Agreement, and directing the Trustee to call the Bonds for mandatory purchase (if the Bonds are in the Weekly Mode) or to declare the principal of the Outstanding Bonds due and payable (see "THE LETTER OF CREDIT REIMBURSEMENT AGREEMENT" herein);

(g) Failure by the Borrower to cause an amendment extending the Expiration Date of the current Letter of Credit or an Alternate Letter of Credit to be delivered to the Trustee pursuant to the Indenture on or before the Interest Payment Date next preceding such Expiration Date, unless the Bonds have been called for mandatory redemption or mandatory purchase on such Interest Payment Date pursuant to the Indenture;

(h) Wrongful dishonor by the Bank of a proper drawing under the Letter of Credit; or

(i) A decree or order of a court or agency or supervisory authority having jurisdiction for the appointment of a conservator or receiver or liquidator in any insolvency, readjustment of debt, marshaling of assets and liabilities or similar proceedings of or with respect to the Bank, or for the winding-up or liquidation of its affairs, shall have been entered against the Bank or the Bank shall have consented to the appointment of a conservator or receiver or liquidator in any insolvency, readjustment of debt, marshaling of assets and liabilities or similar proceedings of or with respect to the Bank of all or substantially all of its property.

Upon the occurrence of any Event of Default under item (d), (e), or (f) above, the Trustee shall upon the written direction of the Bank (or in the case of an Event of Default under item (d) above, upon request of 100% of the Holders of the Bonds then Outstanding, declare the principal of all Bonds then Outstanding, together with interest accrued thereon, to be immediately due and payable; provided that, if the Bonds are in the Weekly Mode, the Bank may, at its option, but subject to the further provisions described in this paragraph, direct the Trustee in writing to call (in which case the Trustee shall call) the Bonds for mandatory purchase pursuant to the Indenture on a Business Day stipulated by the Bank in such direction, which Business Day shall not be earlier than 10 days (or such shorter period as shall be acceptable to the Trustee) and not later than 14 days after the date the Trustee receives such direction. Irrespective of whether an Event of Default has occurred under item (d), (e) or (f) above, for which the Bank has directed the Trustee to call the Bonds for mandatory purchase, upon the occurrence of an Event of Default under item (g), (h) or (i) above the Trustee shall, and upon the occurrence of an Event of Default described under item (a), (b) or (c) above the Trustee may, and upon the written request of a majority of the Holders of the Outstanding Bonds shall, declare the principal of and accrued interest on all Outstanding Bonds immediately due and payable. Upon any declaration that the principal of and interest on the Bonds are due and payable immediately, such principal and interest shall become due and payable immediately. The Trustee shall immediately exercise such rights as it may have under the Loan Agreement to declare all payments thereunder due and payable, and shall immediately draw upon the Letter of Credit to the full extent permitted by the terms thereof and shall give notice to the Holders of Bonds of such acceleration.

In addition, upon the happening and continuance of an Event of Default, the Trustee may pursue any available remedy to enforce payment of debt service on the Bonds or to enforce the observance and performance of any other covenant, agreement or obligation under the Indenture, the Loan Agreement, the Letter of Credit or any other instrument providing security for the Bonds.

If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of Holders of a majority in principal amount of all Bonds Outstanding and receipt of indemnity to its satisfaction shall, in its own name:

(i) By mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Holders of the Bonds, including the right to require the Authority to enforce any rights under the Loan Agreement and to require the Authority to carry out any other provisions of the Indenture for the benefit of the Holders of the Bonds and to perform its duties under the Act;

(ii) Bring suit upon the Bonds,

(iii) By action or suit in equity require the Authority to account as if it were the trustee of an express trust for the Holders of the Bonds; and

(iv) By action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of the Bonds.

If an Event of Default under the Loan Agreement occurs and is continuing, the Trustee in its discretion may, and upon the written request of Holders of a majority in principal amount of all Bonds then Outstanding or of the Bank and receipt of indemnity to its satisfaction shall, enforce each and every right granted to it as assignee of the Loan Agreement.

No remedy conferred upon or reserved to the Trustee (or to the Bondholders) by the Indenture is intended to be exclusive of any other remedy.

As the grantee of a security interest in the Loan Agreement, the Trustee is empowered to enforce each remedy, right and power granted to the Authority under the Loan Agreement. In exercising any remedy, right or power thereunder or under the Indenture, the Trustee shall take any action which would best serve the interests of the Holders in the judgment of the Trustee, applying the standards described in the Indenture.

### **Application of Moneys**

All moneys received by the Trustee pursuant to any drawing made upon the Letter of Credit shall be applied by the Trustee to and only to the payment of principal of or premium, if any, or interest on the Bonds (other than Borrower Bonds and Pledged Bonds). Subject to the terms of the Intercreditor Agreement, all other moneys received or collected by the Trustee pursuant to any right given or action taken under the Indenture or the Loan Agreement, after payment of any amount required to be paid to the Rebate Fund, the Trustee's and the Authority's outstanding fees and expenses, if any, and any costs, expenses, liabilities and advances paid, incurred or made by the Authority or the Trustee in the collection of moneys pursuant to any right given or action taken under the Indenture, the Loan Agreement or the Letter of Credit (including, without limitation, reasonable attorneys' fees and expenses, and the allocated costs and expenses of in-house counsel and legal staff, except as limited by law or judicial order or decision entered in any action taken under the Indenture), shall be applied in accordance with the following provisions, subject to the Indenture:

(i) Unless the principal of all of the Bonds shall have become, or shall have been declared to be, due and payable, all of those moneys shall be deposited in the Bond Fund and shall be applied, subject to the first sentence above:

First -- To the payment to the Holders of Bonds entitled thereto of all installments of interest then due on the Bonds, in the order of the dates of maturity of the installments of that interest, beginning with the earliest date of maturity and, if the amount available is not sufficient to pay in full any particular installment, then to the payment thereof ratably, according to the amounts due on that installment, to the Holders of Bonds entitled thereto, without any discrimination or privilege, except as to any difference in the respective rates of interest specified in the Bonds; and

Second -- To the payment to the Holders of Bonds entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), whether at stated maturity or by redemption, in the order of their due dates, beginning with the earliest due date, with interest on those Bonds from the respective dates upon which they became due at the rates specified in those Bonds, and if the amount available is not sufficient to pay in full all Bonds due on any particular date, together with that interest, then to the payment thereof ratably, according to the amounts of principal due on that date, to the Holders of Bonds entitled thereto, without any discrimination or privilege.

The surplus, if any, remaining after the application of the moneys as set forth above shall, to the extent of any unreimbursed drawing under the Letter of Credit, or other obligations owing to the Bank under the Letter of Credit Reimbursement Agreement, be paid to the Bank. Any remaining moneys shall be paid to the Borrower or the person lawfully entitled to receive the same as a court of competent jurisdiction may direct.

(ii) If the principal of all of the Bonds shall have become due or shall have been declared to be due and payable pursuant to the Indenture, all of those moneys shall be deposited into the Bond Fund and shall be

applied to the payment of the principal, premium (if any) and interest then due and unpaid on the Bonds, without preference or priority of principal over interest, of interest over principal, of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Holders entitled thereto.

(iii) If the principal of all of the Bonds shall have been declared to be due and payable pursuant to the Indenture, and if that declaration thereafter shall have been rescinded and annulled pursuant to the Indenture, the moneys shall be deposited in the Bond Fund and shall be applied in accordance with the provisions of the Indenture.

(iv) Whenever moneys are to be applied pursuant to the foregoing provisions, those moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of moneys available for application and the likelihood of additional moneys becoming available for application in the future. Whenever the Trustee shall direct the application of those moneys, it shall fix the date upon which the application is to be made, and upon that date, interest shall cease to accrue on the amounts of principal, if any, to be paid on that date, provided the moneys are available therefor.

### **Rights and Remedies of Holders**

A Bondholder shall not have any right to institute any suit, action or proceeding for the enforcement of the Indenture, for the execution of any trust thereunder, or for the exercise of any other remedy thereunder, unless:

(i) there has occurred and is continuing an Event of Default under the Indenture of which the Trustee has been notified, as provided in the Indenture, or of which it is deemed to have notice under the Indenture;

(ii) the Holders of at least a majority in aggregate principal amount of Bonds then outstanding shall have made written request to the Trustee and shall have afforded the Trustee reasonable opportunity to proceed to exercise the remedies, rights and powers granted to it under the Indenture or to institute the suit, action or proceeding in its own name, and shall have offered indemnity to the Trustee as provided in the Indenture; and

(iii) the Trustee thereafter shall have failed or refused to exercise the remedies, rights and powers granted it under the Indenture or to institute the suit, action or proceeding in its own name.

At the option of the Trustee, such notification (or notice), request, opportunity and offer of indemnity are conditions precedent in every case to the institution of any suit, action or proceeding described above.

No one or more Holders of the Bonds shall have any right to affect, disturb or prejudice in any manner whatsoever the security or benefit of the Indenture by its or their action, or to enforce, except in the manner provided in the Indenture, any remedy, right or power thereunder. Any suit, action or proceeding shall be instituted, had and maintained in the manner provided in the Indenture for the benefit of the Holders of all Bonds Outstanding.

### **Right of Holders and Bank to Direct Proceedings; Limitations**

The Holders of a majority in aggregate principal amount of Bonds then Outstanding will have the right at any time, by an instrument or document in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or any other remedial proceedings under the Indenture, provided that (i) such direction shall be in accordance with the provisions of law and the Indenture, (ii) the Trustee shall be indemnified as provided in the Indenture, (iii) the Trustee may take any other action which it deems to be proper and which is not inconsistent with the direction of the Holders pursuant to the Indenture, and (iv) if the Letter of Credit is in effect and no Event of Default described in item (i) or (j) under the heading "THE INDENTURE -- Events of Default and Remedies" has occurred and is continuing under the Indenture, then the Bank shall have the right to give such direction in lieu of such Holders.



## **Waivers of Events of Default**

Except as provided in the Indenture, at any time, in its discretion, the Trustee may (and, upon the written request of the holders of at least a majority in aggregate principal amount of all Bonds Outstanding, shall) waive any Event of Default under the Indenture and its consequences and rescind and annul any corresponding acceleration of maturity of principal of the Bonds. No waiver or rescission shall extend to any subsequent or other Event of Default under the Indenture or impair any right consequent thereon.

## **Termination of Proceedings**

In case the Trustee shall have proceeded to enforce any remedy, right or power under the Indenture in any suit, action or proceeding, and the suit, action or proceeding shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then the Authority, the Trustee, the Bank, and the Holders shall be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies and powers of the Trustee shall continue as if no suit, action or proceeding had been taken.

## **Supplemental Indentures**

The Authority and the Trustee, with the consent of the Bank, may enter into supplemental indentures without the consent of or notice to any of the Holders, for any one or more of the following purposes: (a) to cure any ambiguity, inconsistency or formal defect or omission in the Indenture; (b) to grant to or confer upon the Trustee additional rights, remedies, powers or authority for the benefit of the Holders; (c) to accept additional security and instruments of further assurance; (d) to add other covenants, agreements and obligations of the Authority to be observed for the protection of the Holders, or to surrender or limit any right, power or authority reserved to or conferred upon the Authority in the Indenture, (e) to permit the use of a book entry system to identify the owner of an interest in an obligation issued by the Authority under the Indenture; (f) to permit the Trustee to comply with any obligations imposed upon it by law; (g) to specify further the duties and responsibilities of, and to define further the relationship between the Trustee, the Bank, the Issuer and the Remarketing Agent; (h) to achieve compliance of the Indenture with any applicable federal securities or tax laws; (i) to make amendments to the provisions thereof relating to arbitrage matters under Section 148 of the Code, if, in the opinion of nationally recognized bond counsel selected by the Authority and approved by the Trustee, those amendments would not cause the interest on the Bonds Outstanding to become included in the gross income of the Holders thereof for federal income tax purposes and which amendments may, among other things, change the responsibility for making the relevant arbitrage calculations; (j) to evidence the appointment of a new Remarketing Agent; (k) to provide for an Alternate Letter of Credit; (l) to make any amendments required to secure a rating on the Bonds from a Rating Service equal to the rating of the Bank's unsecured indebtedness; (m) to implement a conversion from one Rate Mode to a different Rate Mode; or (n) to permit any other amendment which is not materially adverse to the interests of the Trustee or the Holders.

Exclusive of supplemental indentures for the purposes summarized above, the Indenture may be supplemented if the Bank, the Borrower and the Holders of a majority in aggregate principal amount of the Bonds then Outstanding consent to such supplement; provided that the unanimous consent of the Holders of Bonds then Outstanding is required if the supplemental indenture affects the principal or redemption price of or interest payable upon any Bonds, the dates on which interest will be paid, the dates of maturity or the redemption or purchase provisions of any Bonds or change any provisions with respect to amendment of the Indenture. So long as the Letter of Credit is in effect, and no Event of Default described in clause (i) or (j) under the caption "Events of Default and Remedies" has occurred and is continuing, then the Bank shall have the right to consent to any supplemental indenture on behalf of all Holders, other than a supplemental indenture requiring the unanimous consent of all Holders.

Before any supplemental indenture is executed, there shall be delivered to the parties thereto an opinion of nationally recognized bond counsel to the effect that such supplemental indenture is authorized or permitted by the Indenture and the Act, will, upon the execution and delivery thereof, be valid and binding upon the Authority in accordance with its terms, and will not adversely affect the exclusion from gross income for federal tax purposes of interest on the Bonds.

## Defeasance

When the principal of and premium, if any, and interest on all Bonds issued under the Indenture have been paid, or provision has been made for payment of the same and any tender purchase price payable, together with the compensation and expenses of the Trustee and all other sums payable thereunder by the Authority or the Borrower, the right, title and interest of the Trustee in and to the Trust Estate under the Indenture shall thereupon cease and the Trustee, on demand of the Authority or the Authority at the request of the Borrower, shall release the Indenture and shall execute such documents to evidence such release as may be reasonably required by the Authority or the Borrower and shall turn over to the Borrower or to such person, body or authority as may be entitled to receive the same all balances then held by the Trustee under the Indenture not required for the payment of the Bonds and such other sums and shall surrender the Letter of Credit to the Bank; provided that any proceeds of the Letter of Credit not required for payment of the Bonds shall be turned over to the Bank and in the event there has been a drawing under the Letter of Credit for which the Bank has not been fully reimbursed pursuant to the Letter of Credit Reimbursement Agreement or any other obligations are then due and owing to the Bank under the Letter of Credit Reimbursement Agreement as certified to the Trustee by the Bank, the Trustee shall assign and turn over to the Bank, as successor, subrogee or otherwise, all of the Trustee's right, title and interest under the Indenture, all balances held thereunder (excluding the Rebate Fund) not required for the payment of the Bonds and such other sums and the Trustee's right, title and interest in, to and under the Loan Agreement and any other property held by the Trustee under the Indenture. If payment or provision therefor is made with respect to less than all of the Bonds, the particular Bonds (or portions thereof) for which provision for payment shall have been considered made shall be selected by lot or by such other method as the Trustee deems fair and appropriate, and thereupon the Trustee shall take similar action for the release of the Indenture with respect to the Bonds.

Provision for the payment of Bonds shall be deemed to have been made when the Trustee holds in the Bond Fund (1) cash in an amount sufficient to make all payments (including principal, premium, if any, interest and tender purchase price payments, if any) specified above with respect to the Bonds, or (2) noncallable, direct obligations issued by the United States of America, maturing on or before the date or dates when the payments specified above shall become due, the principal amount of which and the interest thereon, when due, are or will be, in the aggregate, sufficient without reinvestment to make all such payments, or (3) any combination of cash and such obligations the amounts of which and interest thereon, when due, are or will be, in the aggregate, sufficient without reinvestment to make all such payments; provided that (i) such amount on deposit shall be deemed sufficient only if (A) while the Bonds bear interest at a Weekly Rate or a Libor-CUBBS Rate, it provides for payment of interest at the Maximum Rate and the Authority and the Borrower shall have surrendered any power under the Indenture to thereafter change the Maximum Rate, or (B) while the Bonds bear interest at a Term Rate, it provides for payment of interest at such Term Rate and the Bonds have been irrevocably called or designated for redemption on or before the final Interest Payment Date of the Term Rate Period for which such Term Rate has been set, and (ii) the Trustee shall have received an opinion of nationally recognized bond counsel to the effect that a deposit of obligations described in clause (2) or (3) above will not adversely affect the exclusion from gross income for federal tax purposes of the interest on any of the Bonds, and (iii) provision for payment of Bonds shall be deemed to be made only if (A) the Trustee holds in the Bond Fund moneys (which moneys must be Available Moneys if a Letter of Credit is in effect) and/or such obligations (which obligations must have been purchased with Available Moneys if a Letter of Credit is in effect) for payment of the Bonds in amounts sufficient to make all payments specified above with respect to the Bonds, and (B) in the case of Bonds in the Weekly Mode or a Libor-CUBBS Mode, (i) the Bonds have been called for redemption on the earliest possible date after the date provision for payment is being made pursuant to the Indenture and (ii) the Trustee shall have received confirmation from the Rating Service that such provision for payment will not result in a reduction or withdrawal of its rating on the Bonds.

If the principal or tender purchase price of any Bonds becoming due, either at maturity or by call for redemption or tender or otherwise, together with the premium (if any) thereon and all interest accruing thereon to the due date, has been paid or provision therefor made in accordance with the above paragraphs, all interest on the Bonds shall cease to accrue on the due date and all liability of the Authority with respect to the Bonds shall likewise cease, except as hereinafter provided. Thereafter, (a) any surplus balance held by the Trustee with respect to the Bonds over the principal of, premium (if any) on and actual interest accrued on the Bonds shall be paid to the Bank as a return of excess funds drawn under the Letter of Credit (or, if the Rating Service shall have confirmed its rating of the Bonds in connection with the provision for payment of the Bonds, such surplus shall be paid as may otherwise be approved by the Rating Service in connection with such confirmation) and (b) the Holders of the Bonds shall be

restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to the Bonds and the Trustee shall hold such funds in trust for such Holders uninvested and without liability for interest thereon. Moneys so deposited with the Trustee which remain unclaimed two years after the date payment thereof becomes due shall, at the written request of the Borrower (or the Bank) and if neither the Authority nor the Borrower is at the time to the knowledge of the Trustee in default with respect to any covenant contained in the Indenture, the Bonds or the Loan Agreement, be paid to the Borrower (or the Bank with respect to surplus balances as provided in the Indenture) and the Holders of the Bonds for which the deposit was made shall thereafter be limited to a claim against the Borrower.

Any provisions of the Indenture which relate to the maturity of Bonds, interest payments and dates thereof, optional and mandatory redemption provisions, credit against mandatory sinking fund requirements, exchange, transfer and registration of Bonds, replacement of mutilated, lost, wrongfully taken or destroyed Bonds, safekeeping and cancellation of Bonds, nonpresentment of Bonds, holding of moneys in trust, payment of moneys to the Borrower and the Bank, the rebate of moneys to the United States and the duties, rights and protections of the Trustee in connection with all of the foregoing, shall remain in effect and be binding upon the Trustee and the Holders notwithstanding the release and discharge of the Indenture.

### **Limitation of Rights; No Personal Recourse.**

With the exception of rights conferred expressly in the Indenture, nothing expressed or mentioned in or to be implied from the Indenture or the Bonds is intended or shall be construed to give to any person other than the parties thereto, the Borrower, the Remarketing Agent, the Bank and the Holders of the Bonds any legal or equitable right, remedy, power or claim under or with respect to the Indenture or any covenants, agreements, conditions and provisions contained therein.

The Indenture does not pledge the general credit of the Authority or the general credit or the taxing power of Montgomery County, the Commonwealth of Pennsylvania or any political subdivision thereof. The liability of the Authority shall be limited to and payable solely from the sources described herein under "SECURITY AND SOURCES OF PAYMENT FOR BONDS".

No covenant or agreement contained in the Indenture, the Bonds or the Loan Agreement shall be deemed to be the covenant or agreement of any member, director, officer, attorney, agent or employee of the Authority or the Program Sponsor in an individual capacity. No recourse shall be had for the payment of any claim based thereon against any member, director, officer, agent, attorney or employee of the Authority or the Program Sponsor, past, present or future, or its successors or assigns, as such, either directly or through the Authority, the Program Sponsor or any such successor corporation, whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise.

## **BONDHOLDERS' RISKS**

### **General**

The Bonds are limited obligations of the Authority and are payable solely from payments made pursuant to the Loan Agreement, from certain funds held by the Trustee under the Indenture, and from amounts drawn under the Letter of Credit. No representation or assurance can be given that the Borrower will generate sufficient revenues to meet the Borrower's payment obligations under the Loan Agreement. Future legislation, regulatory actions, economic conditions, changes in the number of students in attendance at the Borrower, or other factors could adversely affect the Borrower's ability to generate such revenues. Neither the Underwriter nor the Authority has made any independent investigation of the extent to which any such factors will have an adverse impact on the revenues of the Borrower.

### **Covenant to Maintain Tax-Exempt Status of the Bonds**

The tax-exempt status of the Bonds is based on the continued compliance by the Authority and the Borrower with certain covenants contained in the Indenture, the Loan Agreement and the other documents executed

by the Authority, the Borrower and the Trustee. These covenants relate generally to restrictions on use of facilities financed with proceeds of the Bonds, arbitrage limitations, rebate of certain excess investment earnings to the federal government and restrictions on the amount of issuance costs financed with the proceeds of the Bonds. Failure by the Authority and/or the Borrower to comply with such covenants could cause interest on the Bonds to become subject to federal income taxation retroactive to the date of issuance of the Bonds.

### **Enforceability of Remedies**

The remedies available to Bondholders upon an Event of Default under the Indenture or the Loan Agreement are in many respects dependent upon judicial action, which is subject to discretion or delay. Under existing law and judicial decisions, including specifically the Bankruptcy Code, the remedies specified in the Indenture and the Loan Agreement may not be readily available or may be limited. A court may decide not to order specific performance.

The various legal opinions to be delivered concurrently with the original delivery of the Bonds will be qualified as to enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws or legal or equitable principles affecting creditors' rights.

### **State and Federal Legislation**

Legislation has been proposed in the past, and may be proposed again in the future, to eliminate the tax-exempt status of bonds issued to finance educational facilities or to limit the use of tax-exempt bonds, or to prevent certain holders of tax-exempt bonds from realizing the full benefit of the tax exemption of interest on such bonds. Any such limitation could reduce the ability of the Borrower to finance its future capital needs. The effect on the Borrower of proposed laws and regulations and of future changes in federal and state laws and policies cannot be fully or accurately determined at this time.

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

The Bank's obligations under the Letter of Credit will be general obligations of the Bank that will not be guaranteed or secured, in whole or in part, by the United States or any agency or instrumentality thereof. Default by the Bank might result in insufficient revenues being available to pay the principal of, premium, if any, on and accrued and unpaid interest on, or the purchase price of, the Bonds. In the event of a default in payment by the Bank, the Trustee may experience delays in seeking to enforce the obligations of the Bank under the Letter of Credit.

### **Mandatory Tender**

The Bonds are subject to mandatory tender for purchase on the Expiration Date. No assurance can be given that the Bank will renew the Letter of Credit or that the Borrower will be able to deliver an Alternate Letter of Credit that complies with the provisions of the Indenture.

### **Other Risk Factors**

In the future, the following factors, among others, may adversely affect the operations of the Borrower to an extent that cannot be determined at this time:

- (1) Loss of accreditation for the Borrower or key academic programs.
- (2) Employee strikes and other adverse labor actions that could result in a substantial reduction in revenues without corresponding decreases in costs.
- (3) Litigation resulting in required payments by the Borrower which exceed insurance coverages.
- (4) Increased costs and decreased availability of public liability or other types of insurance.

- (5) Changes in the demand for higher education in general or for programs offered by the Borrower in particular.
- (6) Cost and availability of energy.
- (7) High interest rates, which could strain cash flow or prevent borrowing for needed capital expenditures.
- (8) A decrease in student loan funds or other aid that permits many students the opportunity to pursue higher education.
- (9) An increase in the costs of health care benefits, retirement plans, or other benefit packages offered by the Borrower to its employees.
- (10) Withdrawal of any current exemptions from local real estate taxes, business privilege taxes and similar impositions.
- (11) Losses in investments held by the Borrower.
- (12) Reduced future Borrower net tuition revenue as a result of a need to increase tuition discounting to attract students.
- (13) Increased competition from other institutions of higher learning which may offer similar academic programs or may recruit similar students, and that may result in reduced enrollments and reduced Borrower revenues.
- (14) Reduced ability to attract future capital campaign contributions, that may limit future projects and/or the ability to address deferred maintenance and/or reduced ability to attract future annual fund contributions that may negatively impact the ability to afford annual operating expenses and which may negatively affect operating performance.
- (15) Reduced availability of qualified faculty to teach the programs offered by the Borrower.
- (16) An inability to retain students, resulting in enrollment losses and reduced revenues, which may be due to reduced financial aid available to students from the Borrower or from Federal or state sources.
- (17) Future deficits as a result of increased future expenses and/or reduced revenues.
- (18) Any failure to successfully implement future new programs, negatively affecting operating performance.

## **LITIGATION**

As of the date hereof, there is no litigation of any nature pending or, to the Authority's knowledge, as to the Authority, or the Borrower's knowledge, threatened against the Authority or the Borrower to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or the application of the proceeds thereof as herein described, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, the pledge or application of any monies or security for the Bonds or the existence or powers of the Authority.

As of the date hereof, to the knowledge of the Borrower, there is no litigation pending or threatened against the Borrower wherein an unfavorable decision would adversely affect the ability of the Borrower to carry out its obligations under the Indenture or the Loan Agreement, or would have a material adverse impact on the financial position or operations of the Borrower.

## **CONTINUING DISCLOSURE**

On or before the date of issuance of the Bonds, the Borrower will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with The Bank of New York Mellon Trust Company, N.A. (the "Dissemination Agent"), in substantially the form set forth in Appendix D hereto. Pursuant to the Continuing Disclosure Agreement, the Borrower will agree to provide certain continuing disclosure for the benefit of the holders of the Bonds pursuant to Securities and Exchange Commission Rule 15c2-12 (the "Rule"). The provisions of the Continuing Disclosure Agreement will be for the benefit of the beneficial owners of the Bonds under the circumstances described therein, and each beneficial owner will be a beneficiary of the provisions of the Continuing Disclosure Agreement with the right to enforce such provisions directly against the Borrower. However, breach of the provisions of the Continuing Disclosure Agreement will not be considered an Event of Default under the Indenture or the Loan Agreement and none of the rights and remedies provided under the Indenture or the Loan Agreement upon an Event of Default (other than specific performance) will be available to the beneficial owners in the event of such breach. Unless otherwise required by law, no beneficial owner is entitled to damages for the Borrower's noncompliance with its obligations under the Continuing Disclosure Agreement.

The Borrower has made similar undertakings in the past (the "Prior Continuing Disclosure Undertakings") in connection with other series of bonds previously issued for the benefit of the Borrower. While the Borrower made annual filings of financial and operating information in accordance with the Rule and the Prior Continuing Disclosure Undertakings during the five years preceding the date of this Official Statement, in some instances the filings were made after the filing deadline and the Borrower did not timely file notices in regard to such late filings. In addition, the Borrower omitted to file certain required operating data relating to competition in its filings for such years. The Borrower also failed to file a notice of a 2015 change in the rating of the bond insurer insuring its Series 2007 GG5 Bonds. Corrective filings to bring the Borrower's prior filings into conformity with the requirements of the Rule and the Continuing Disclosure Undertakings have been made by the Borrower.

## **TAX MATTERS**

### **General**

In the opinion of Ballard Spahr LLP, Bond Counsel, interest on the Bonds is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the Bonds, assuming the accuracy of the certifications of the Authority and the Borrower and continuing compliance by the Authority and the Borrower with the requirements of the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not an item of tax preference for purposes of either individual or corporate federal alternative minimum tax; however, interest on Bonds held by a corporation (other than an S Corporation, regulated investment company, or real estate investment trust) may be indirectly subject to federal alternative minimum tax because of its inclusion in the adjusted current earnings of a corporate holder. Bond Counsel expresses no opinion regarding other Federal tax consequences relating to ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Bond Counsel is also of the opinion that, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of initial delivery of the Bonds, interest on the Bonds is exempt from Pennsylvania personal income tax and corporate net income tax, and the Bonds are exempt from personal property taxes in Pennsylvania.

### **Changes in Federal and State Tax Law**

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value,

marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

## **LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Ballard Spahr LLP, Philadelphia, Pennsylvania, Bond Counsel. A signed copy of their opinion, dated and premised on facts existing and law in effect as of the date of original issuance and delivery of the Bonds, will be delivered to the Trustee at the time of such original issuance, and a copy of that opinion will be printed on or attached to the Bonds.

Certain legal matters will be passed upon by Law Offices of Douglas B. Breidenbach, Pottstown, Pennsylvania, as counsel to the Authority; by Schubert, Gallagher, Tyler & Mulcahey, Philadelphia, Pennsylvania, as counsel to the Borrower; and by Campbell & Levine, LLC, Pittsburgh, Pennsylvania, as counsel to the Underwriter. Certain legal matters with respect to the Letter of Credit will be passed upon for the Bank by its counsel, Murphy Sullivan Kronk, Burlington, Vermont.

## **RATINGS**

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P" or the "Rating Service"), has assigned a short term bond rating of "A-1+" based upon the issuance of the Letter of Credit by the Bank to secure the Bonds, and a long-term rating of "AA-" based upon the creditworthiness of both the Borrower and the Bank. Such ratings will expire with expiration of the Letter of Credit on the expiration date shown on the inside cover hereof unless before such date any such ratings are withdrawn, reduced or extended.

Certain information and materials not included in this Official Statement was furnished to the Rating Service. Generally, such Rating Service bases its ratings on information and materials so furnished and on investigations, studies and assumptions by such Rating Service. The ratings assigned to the Bonds reflects only the views of such Rating Service at the time such ratings were issued, and an explanation of the significance of such ratings may be obtained only from such Rating Service. Such ratings are not a recommendation to buy, sell or hold the Bonds. There is no assurance that any such ratings will continue for any given period of time or that they will not be lowered or withdrawn entirely by such Rating Service if, in its judgment, circumstances so warrant. Any such downward revision of such ratings or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

## **UNDERWRITING**

The Bonds are being purchased by George K. Baum & Company (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at an aggregate purchase price of \$18,933,500.00. The purchase contract by and among the Underwriter, the Authority and the Borrower (the "Purchase Contract") provides that the Underwriter will purchase all of the Bonds, if any Bonds are purchased, and contains the agreement of the Borrower to indemnify the Underwriter and the Authority against losses, claims, damages and liabilities to third parties arising out of any materially incorrect or incomplete statements of information contained in this Official Statement pertaining to the Borrower or the Project.

George K. Baum & Company and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation ("Pershing"), have a distribution agreement enabling Pershing LLC to obtain and distribute certain municipal securities underwritten by or allocated to George K. Baum & Company. Under the distribution

agreement, George K. Baum & Company will allocate a portion of received takedowns, fees or commissions to Pershing for bonds sold under the agreement.

### **INDEPENDENT AUDITORS**

The financial statements of the Borrower as of and for the fiscal years ended June 30, 2016 and June 30, 2015 are included in Appendix B hereto and have been audited by Baker Tilly Virchow Krause, LLP, as stated in their report appearing therein.

### **CERTAIN RELATIONSHIPS**

George K. Baum & Company, the Underwriter of and Remarketing Agent for the Bonds, is also the underwriter of the Fixed Rate Bonds, which were issued on or about the date of issuance and delivery of the Bonds.

### **OTHER MATTERS**

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed a determination of relevance, materiality or importance, and this Official Statement, including the Appendices, must be considered in its entirety. The offering of the Bonds is made only by means of this entire Official Statement. The Appendices are integral parts of this Official Statement and should be read in their entirety together with the other sections of this Official Statement.

The foregoing references to and summaries or descriptions of provisions of the Bonds, the Letter of Credit, the Letter of Credit Reimbursement Agreement, the Remarketing Agreement, the Loan Agreement and the Indenture, and all references to other materials not stated to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Copies of the Letter of Credit, the Letter of Credit Reimbursement Agreement, the Remarketing Agreement, the Loan Agreement and the Indenture may be obtained from the Underwriter as set forth herein under "INTRODUCTORY STATEMENT."

Included in Appendix A to this Official Statement is a description of the Borrower. The audited financial statements of the Borrower included in Appendix B hereto have been audited by independent accountants, to the extent and for the periods indicated in their report (see "INDEPENDENT AUDITORS"). Included in Appendix C to this Official Statement is a description of the Bank.

The information set forth in this Official Statement, and in the Appendices hereto, should not be construed as representing all of the conditions affecting the Authority, the Borrower, the Bank or the Bonds.

Statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as such and not as representations of facts. All projections, estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the financial condition and results of operations of the Borrower include, among other things, changes in economic conditions and various other events, conditions and circumstances, many of which are beyond the control of the Borrower. Such forward-looking statements speak only as of the date of this Official Statement. The Borrower disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Borrower's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.



The distribution of this Official Statement has been duly authorized by the Authority and the Borrower. The Authority has not assisted in the preparation of this Official Statement, except for the statements pertaining to the Authority under the captions "THE AUTHORITY" and "LITIGATION" herein and, except as aforesaid, the Authority is not responsible for any statements made in this Official Statement. Except for the execution and delivery of documents required to effect the issuance of the Bonds, the Authority has not otherwise assisted in the public offer, sale or distribution of the Bonds. Accordingly, except as aforesaid, the Authority assumes no responsibility for the disclosures set forth in this Official Statement.

MONTGOMERY COUNTY HIGHER  
EDUCATION AND HEALTH AUTHORITY

By: /s/James A. Konnick  
Chairman

[ THIS PAGE INTENTIONALLY LEFT BLANK ]

## APPENDIX A

### INFORMATION REGARDING GWYNEDD MERCY UNIVERSITY

[ THIS PAGE INTENTIONALLY LEFT BLANK ]

## **GWYNEDD MERCY UNIVERSITY**



### **Introduction & History**

Gwynedd Mercy University (“Gwynedd Mercy” or the “University”), a co-educational, four-year Catholic-sponsored institution of arts and sciences, situated on 160 picturesque acres in suburban Gwynedd Valley, Montgomery County, Pennsylvania, enjoys a quiet country atmosphere but is easily accessible to the cultural and historical areas of Philadelphia and the Delaware Valley.

The Sisters of Mercy founded the Schools of the Sisters of Mercy in Gwynedd Valley as a junior college in 1948 (Gwynedd Mercy Junior College), to provide further educational opportunities for high school graduates. During the same year, the State Council of Education approved the young institution. In 1954, the State Council voted unanimously to grant final approval to the College. Increased enrollment, expanded facilities, and improved programs of study prompted the administration to request accreditation by the Middle States Association of Colleges and Secondary Schools. This accreditation was granted in 1958.

Within 15 years of its founding, Gwynedd-Mercy Junior College, reached an enrollment more than ten times greater than its first class of 28. The administration sought approval of the State Council of Education to amend its charter to grant Bachelor of Arts and Bachelor of Science degrees. Approval was granted in May, 1963, making it possible to offer upper division courses, as part of four-year curricula, in September, 1963 and Gwynedd-Mercy Junior College was renamed Gwynedd-Mercy College.

In September, 2013, Gwynedd-Mercy College received university status and became Gwynedd Mercy University. The University was approved to offer its first doctoral program, the Doctor of Nursing Practice (DNP) in 2013. In 2014, a Doctorate in Educational Leadership (EdD) was added.

### **Mission**

The mission of Gwynedd Mercy is to create a learning community, rooted in Gospel values and rich in the liberal arts. In an atmosphere of inquiry and dialogue, the University seeks to combine education for professional competency with the Mercy tradition of service to society.

## Academic Accreditation

Sponsored by: The Sisters of Mercy of the Americas

Chartered by: The Commonwealth of Pennsylvania

Accredited by: Middle States Commission on Higher Education  
Accreditation Commission for Education in Nursing (ACEN)  
Commission on Accreditation of Allied Health Education Programs (CAAHEP)  
Committee on Accreditation of Respiratory Care  
Joint Review Committee on Education in Radiologic Technology  
International Assembly for Collegiate Business Education (IACBE)

## Governance

Gwynedd Mercy University is incorporated under the laws of the Commonwealth of Pennsylvania as a membership corporation. The Conference for Mercy Higher Education, Inc., a Maryland not-for-profit corporation is the member of the corporation (the “Member”). The Member of the University reserves the right to adopt or change the mission, purpose, philosophy or objectives of the University or to change the general structure of the operation of the University as a voluntary non-profit corporation for education, to amend the University’s Charter and Bylaws, to dissolve, to sell all or substantially all of the assets, to elect the members of the Board of Trustees, to approve candidates chosen for election as President and to effect any transfer or encumbrance of corporate property which requires approval pursuant to Canon Law.

The business and affairs of the University are managed by a Board of Trustees of not less than 13 or more than 25 Trustees. The Board of Trustees is vested with the right to perform all lawful acts and things, which are not by statute, or by the Articles of Incorporation of the University, directed or required to be exercised and performed by the Member. The President of the University, upon election to that office by the Board, shall become and be a member of the Board until a successor shall be elected.

| <b><u>Member</u></b>                         | <b><u>Occupation</u></b>   | <b><u>Term Expires</u></b> |
|--|--|----------------------------|
| <b>Nancy A. Dunleavy, Chair of the Board</b> | <b>President &amp; CEO<br/>Dunleavy &amp; Associates</b>                   | <b>7/2017</b>              |
| <b>Kathleen Owens, PhD</b>                   | <b>President<br/>Gwynedd Mercy University</b>                              | <b>N/A</b>                 |
| <b>Vladimir Bien-Aime</b>                    | <b>President &amp; CEO<br/>Global DMS</b>                                  | <b>7/2018</b>              |
| <b>Barbara Buckley, RSM</b>                  | <b>Head of School<br/>Merion Mercy Academy</b>                             | <b>7/2019</b>              |
| <b>Mary Ann Dillon, RSM, PhD</b>             | <b>Executive Vice President of Mission<br/>Integration, Trinity Health</b> | <b>7/2019</b>              |
| <b>Joseph England</b>                        | <b>Shareholder<br/>St. Clare CPA Solutions</b>                             | <b>7/2018</b>              |
| <b>Mary Anne Francisco, ’66, ’76</b>         | <b>School Nurse, Retired<br/>Pennsbury School District</b>                 | <b>7/2018</b>              |

|                                      |  |                 |
|--------------------------------------|--|-----------------|
| <b>Eileen Foley Guest, ‘68</b>       | <b>President<br/>Guest, Inc.</b>   | <b>7/2018</b>   |
| <b>Rosemary Herron, RSM, ‘73</b>     | <b>President<br/>Mercy Career and Technical High<br/>School</b>  | <b>7/2019</b>   |
| <b>Jean Keeler, JD</b>               | <b>President &amp; CEO<br/>Grand View Health</b>   | <b>7/2019</b>   |
| <b>John C.S. Kepner, JD</b>          | <b>President<br/>Fenway Management Advisors</b>  | <b>7/2019</b>   |
| <b>Mark A. Lafond</b>                | <b>President &amp; CEO<br/>InSource, Inc.</b>  | <b>7/2019</b>   |
| <b>David Mallach</b>                 | <b>Managing Director<br/>Merrill Lynch Global Wealth<br/>Management</b>  | <b>7/2018</b>   |
| <b>Rose Martin, RSM, PhD, ‘74</b>    | <b>Executive Director<br/>Hope Partnership for Education</b>   | <b>7/2019</b>   |
| <b>Charlotte O. McKines</b>          | <b>Vice-President Global Marketing<br/>Communications, Retired<br/>Global Human Health Marketing<br/>Merck &amp; Co., Inc.</b> | <b>7/2018</b>   |
| <b>Susan M. Meitner</b>              | <b>CEO &amp; President<br/>Centennial Lending Group</b>  | <b>7/2019</b>   |
| <b>Joseph J. Palmer</b>              | <b>President<br/>ASH-STE Company</b>   | <b>7/2018</b>   |
| <b>Ellen Stang, MD</b>               | <b>President &amp; CEO<br/>ProgenyHealth, Inc.</b>   | <b>7/2017</b>   |
| <b>Lawrence J. Stuardi</b>           | <b>President<br/>MRA Group</b>   | <b>7/2017</b>   |
| <b>Margaret Taylor, RSM, JD, ‘67</b> | <b>Associate Director of Sponsorship<br/>Sister of Mercy of the Americas,<br/>Mid-Atlantic Community</b>                       | <b>7/2019</b>   |
| <b>Oscar P. Vance, Jr.</b>           | <b>President<br/>Vance Investigations Corporate<br/>Solutions</b>  | <b>7/2019</b>   |
| <b>H. Ray Welch</b>                  | <b>Executive Vice President, Retired<br/>Trinity Health</b>  | <b>7/2019</b>   |
| <b>Denise Allen Williams</b>         | <b>Vice President, Business<br/>Development<br/>Merck &amp; Co., Inc.</b>  | <b>7/2019</b>   |
| <b>Eileen Zaro</b>                   | <b>President<br/>Premier Systems Group</b>   | <b>7/2017</b>   |
| <b>William J. Avery, DHL, ‘12</b>    | <b>Chairman and CEO, Retired<br/>Crown Cork &amp; Seal Co.</b>   | <b>Emeritus</b> |

## **Principal Administrative Officers of the University**

**Kathleen Owens, Ph.D., President.** Dr. Owens assumed her position as the fifth president of Gwynedd Mercy University in 2002. Prior to her arrival at the University, she was Vice President for Academic Affairs of Saint Francis University in Loretto, Pennsylvania. Her higher education experience includes service both as Dean and Professor of the College of Arts & Sciences at Lewis University in Romeoville, Illinois. She received her Ph.D. and B.S. degrees from Loyola University in Chicago and her M.Ed. degree from DePaul University. Dr. Owens has announced her retirement as president on July 31, 2017. Dr. Owens will begin a sabbatical on August 1, 2017 during which she will be available to her successor to aid in a smooth transition.

**Deanne H. D'Emilio, J.D., President (effective August 1, 2017).** The Board of Trustees has elected Dr. D'Emilio as the next President of the University effective August 1, 2017. Dr. D'Emilio is currently Provost and Vice President for Academic Affairs at Carlow University in Pittsburgh, Pennsylvania. Prior to serving at Carlow, she spent 15 years in faculty and administrative roles at Mount Aloysius College in Cresson, Pennsylvania, where she developed and chaired the Legal Studies program and served as Associate Academic Dean and Division Chair of Humanities, Social Science and Professional Studies. Dr. D'Emilio received her B.A. degree in education from Westminster College, a master's degree in higher education and student affairs from Bowling Green State University, and a J.D. from the University of Pittsburgh School of Law.

**Kevin O'Flaherty, M.S., CPA, Vice President for Finance and Administration.** Mr. O'Flaherty was appointed to this position in September 2004 upon joining Gwynedd Mercy. Previously, Mr. O'Flaherty served as Vice President for Finance at Saint Francis University, in Loretto, Pennsylvania. Mr. O'Flaherty holds an M.S. degree in Taxation and a B.S. degree in Accounting from DePaul University.

**Frank E. Scully, Jr., Ph.D., Vice President for Academic Affairs.** Dr. Scully assumed his position as Vice President for Academic Affairs on July 1, 2012. Dr. Scully earned a Ph.D. in Organic Chemistry from Purdue University, and a B.S. in Chemistry from Spring Hill College. He has held positions in the higher education field for almost 40 years. He has held the rank of full Professor at Old Dominion University. His experience in academic administration includes service as Professor and Dean of the College of Humanities and then as Dean of the College of Humanities and Natural Sciences at Loyola University, New Orleans. Most recently, he has held the position of Vice President for Academic Affairs at Emmanuel College in Boston, Ma.

**Cheryl Lynn Horsey, Ph.D., Vice President for Enrollment and Student Services.** Joining Gwynedd Mercy in July 2003, Dr. Horsey has responsibility for enrollment at the Gwynedd Valley campus and all co-curricular programs and services. She holds her Ph.D. from Bryn Mawr College in Social Work Research and Policy, master's degree in Public Administration from Penn State, and her bachelor's degrees from Long Island University Post.

**Gerald McLaughlin, M.A., CFRE, Vice President for Institutional Advancement.** Mr. McLaughlin assumed his position with the University in January 2006. Previously, he served as Director of Development at Penn State Great Valley School of Graduate Professional Studies for approximately eleven years. He has over 20 years in fundraising experience. Mr. McLaughlin holds an M.A. in English from Kansas State University and a B.A. in Liberal Arts from Mansfield State University in Mansfield, PA.

**Sister Catherine McMahon, RSM, M.S., Vice President for Mission and Ministry.** Sister Catherine holds an M.S. degree in Counseling and Human Relations from Villanova University and an undergraduate degree in Elementary Education from Gwynedd Mercy University. Sister Catherine has served at the University since 1983, having held numerous positions including Director of Counseling and Vice President for Student Services.



## **University Facilities**

The University encompasses 160 acres in Lower Gwynedd Township, Montgomery County, Pennsylvania and includes eighteen modern buildings comprising classrooms, laboratories, auditorium, library, student athletic center and student residences. Tennis courts, baseball, softball, field hockey and soccer fields are available for student use and intercollegiate athletic events. The physical plant of the University is in good repair.

### **Other Key Facilities**

#### Assumption Hall



The signature structure of the campus, Assumption Hall, a 15,500 square foot Georgian-style residence constructed as an estate house in 1906, has recently undergone an extensive renovation, made possible through the generosity of the University's Board of Trustees.

#### University Hall



In January 2014, the University opened University Hall, a 50,000 square feet facility which houses the School of Education and Business. The facility is a mix of faculty offices as well as state-of-the-art classroom space. The university received an \$8 million grant from the Commonwealth of Pennsylvania Redevelopment Assistance Capital Program (RACP) towards construction of this facility

#### Maguire Hall



In August, 1999 the University opened Keiss Hall, a 46,000 square foot facility with state-of-the-art health and science laboratory and lecture facilities. Keiss Hall houses the Frances M. Maguire School of Nursing, the School of Allied Health Professions, as well as the Science and Computational Sciences Division. This facility was re-named Maguire Hall in May 2015

## Outdoor Athletic Complex



In 2007, the University constructed an outdoor athletic complex. The complex includes a synthetic turf field, and eight-lane track, grandstands with seating for 950, concessions stands and a two-story building which includes team rooms as well as storage space for athletic equipment required to maintain the fields. The complex is accessible to the general student population to allow students to have a healthy lifestyle.

The University also has sites in Philadelphia, Pa (22 miles from the main campus) and East Norriton, Pa (7.5 miles from the main campus). A third site was opened in March 2012 in Bensalem, Pa (20 miles from the main campus). These three sites offer classes to adult students in an accelerated mode.

## **Residence Halls**

### Alexandria Hall



In January, 2006, the University completed Alexandria Hall, a three-story, 59,500 square foot, 204 bed residence hall. This facility was fully sprinkled and is fully ADA compliant.

In 2001, the University constructed Siena Hall, a three-story, 37,000 square foot, 106 bed residence hall addition adjacent to Loyola Hall and St. Brigid's Hall. In January, 2000, St. Brigid's Hall, a student residence of nearly 30,000 square feet and 96 beds, was constructed. The four student residences are designed to accommodate approximately 559 students.

## Significant Campus Projects over Past 15 Years

Funding of the University's major campus projects over the past 15 years has come from a variety of sources with a limited dependence upon debt, as shown below:

| <u>Project Name</u>                               | <u>Funding Type</u>         |                          |                        |             |               |
|---|-----------------------------|--------------------------|------------------------|-------------|---------------|
|   | <u>Internal<br/>Funding</u> | <u>Private<br/>Gifts</u> | <u>State<br/>Grant</u> | <u>Debt</u> | <u>Vendor</u> |
| Alexandria Hall (New Residence Hall)              |                             |                          |                        | X           |               |
| Sports Complex (Turf Field, Track, Team Building) |                             |                          |                        | X           |               |
| Admissions House Renovation                       | X                           |                          |                        |             |               |
| Campbell Hall                                     | X                           |                          |                        |             |               |
| Learning Commons - Keiss Library                  | X                           |                          |                        |             |               |
| Wellness Center - Residence Hall Complex          | X                           |                          |                        |             |               |
| Dining Hall Renovations                           |                             |                          |                        |             | X             |
| Center City Campus                                | X                           | X                        |                        |             |               |
| East Norriton Campus                              | X                           |                          |                        |             |               |
| Bensalem Campus                                   | X                           | X                        |                        |             | X             |
| University Hall                                   | X                           | X                        | X                      | X           |               |
| New Chemistry Lab in Maguire Hall                 | X                           |                          |                        |             |               |
| Yellin Gates                                      |                             | X                        |                        |             |               |

## Academic Programs & Structure of the University

One of the University's largest programs is nursing, accounting for 49% of the University's full-time undergraduate enrollment. The nursing program is the only program in the area that is articulated, allowing a student to receive an Associate of Science in Nursing (A.S.N.) degree in two (2) years and Bachelor of Science in Nursing (B.S.N.) and Master of Science in Nursing (M.S.N.) degrees on a full or part-time basis. The program affords the student great flexibility (work or school, either full-time or part-time) and distinguishes the University's nursing program from its closest competitors: LaSalle University, Neumann University and Holy Family University. In May, 2015, the Accelerated Bachelor of Nursing (A.B.S.N.) degree was introduced.

The University's offers the following graduate and undergraduate academic programs.

### Undergraduate Programs

Accounting  
 Behavioral & Social Gerontology  
 Biology  
 Business Administration  
 Communication  
 Computer Information Science (CIS)  
 Criminal Justice  
 Education  
 English  
 Finance  
 History  
 Human Resource Management  
 Human Services

### Undergraduate Programs

Liberal Studies  
Management  
Marketing  
Mathematics  
Medical Laboratory Science  
Nursing  
Occupational Science  
Philosophy  
Psychology  
Radiation Therapy  
Respiratory Care  
Sports Management

### Graduate Programs

Master of Business Administration  
    4+1 MBA  
    MBA – Transportation Leadership  
    Online Accelerated MBA – Health Care Concentration  
    Online Accelerated MBA – Strategic Management & Leadership Concentration  
Education  
    Online Accelerated MS – Educational Administration  
    Online Accelerated MEd – Teacher Certification Track  
Online Accelerated MEd  
Online MS – School Counseling  
Online MS – Special Education  
Post Master's Certifications – Supervisor of Curriculum; Principal Certification; School  
Counseling; Special Education; Special Education Supervisor  
    Accelerated Executive Doctorate of Education in Educational Leadership  
Online Accelerated Executive Doctorate of Education (ABD)  
Nursing  
    Clinical Nurse Specialist – Adult – Gerontology (MS)  
    Nurse Practitioner (MS)  
    Nursing Education (MS)  
    Online Doctor of Nursing Practice (DNP)  
    Post Master's Certificate – Nurse Practitioner  
Occupational Therapy  
    Occupational Therapy (MSOT)  
    3+2 BHS in Occupational Science / MS in Occupational Therapy  
    Post-Baccalaureate MS in Occupational Therapy

In addition, Gwynedd Mercy is associated with 70 hospitals and more than 90 healthcare affiliates in the Delaware Valley, eastern Pennsylvania and New Jersey with respect to its educational programs in the nursing and allied health fields.

## Enrollment & Residence Occupancy

Total University enrollment and resident occupancy for the past five academic years are indicated below:

|                      | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | <u>2016-17</u> |
|----------------------|----------------|----------------|----------------|----------------|----------------|
| Full-time            | 2,136          | 1,998          | 2,225          | 2,342          | 2,426          |
| Part-time            | <u>436</u>     | <u>372</u>     | <u>248</u>     | <u>243</u>     | <u>241</u>     |
| Total                | 2,572          | 2,370          | 2,473          | 2,585          | 2,667          |
| Full-time Equivalent | 2,345          | 2,176          | 2,340          | 2,461          | 2,506          |

|                    | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | <u>2016-17</u> |
|--------------------|----------------|----------------|----------------|----------------|----------------|
| Campus Residents   | 516            | 458            | 398            | 387            | 369            |
| % of Occupied Beds | 92.3%          | 82.0%          | 71.2%          | 69.6%          | 66.0%          |

**Montgomery County Community College:** The University recently reached an agreement with Montgomery County Community College to provide housing for up to twenty students on the campus of Gwynedd Mercy.

## Applications, Admissions & Credentials

The following table sets forth application and enrollment information for the last five academic years:

|                    | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | <u>2016-17</u> |
|--------------------|----------------|----------------|----------------|----------------|----------------|
| Total Applications | 3,363          | 2,824          | 2,347          | 2,356          | 2,651          |
| Acceptances        |                |                |                |                |                |
| Freshmen           | 1,045          | 794            | 790            | 766            | 817            |
| Transfers          | <u>415</u>     | <u>452</u>     | <u>416</u>     | <u>471</u>     | <u>478</u>     |
| Total Acceptances  | 1,460          | 1,246          | 1,206          | 1,237          | 1,295          |
| Acceptance Rate    | 43.4%          | 44.1%          | 51.4%          | 52.5%          | 48.8%          |
| Enrolled           |                |                |                |                |                |
| Freshmen           | 251            | 211            | 209            | 239            | 224            |
| Transfers          | <u>227</u>     | <u>248</u>     | <u>267</u>     | <u>263</u>     | <u>253</u>     |
| Total Enrolled     | 478            | 459            | 476            | 502            | 477            |
| Matriculation Rate | 32.7%          | 36.8%          | 39.5%          | 40.6%          | 36.8%          |

**2017-18 Academic Year:** As of March 27, 2017, the University had 2,461 applications for its full-time traditional program (compared to 2,056 as of March 27, 2016 and 1,870 as of March 27, 2015), 1,178 acceptances (compared to 1,092 as of March 27, 2016 and 1,031 as of March 27, 2015), and 207 deposits (vs. 207 as of March 27, 2016 and 146 as of March 27, 2015).

The retention rates for the first year students from their freshmen to sophomore years for the past five years were as follows:

| <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | <u>2016-17</u> |
|----------------|----------------|----------------|----------------|----------------|
| 65.5%          | 71.6%          | 73.5%          | 76.0%          | 77.0%          |

## Student Fees & Competition

The following table shows the average undergraduate tuition and fees and average room and board charges at the University for the academic years indicated:

|                              | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | <u>2016-17</u> | <u>2017-18</u> |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Average Tuition              | \$28,490       | \$29,600       | \$30,610       | \$31,510       | \$32,780       | \$33,820       |
| Average Room & Board Charges | \$10,920       | \$11,340       | \$11,500       | \$11,870       | \$12,160       | \$12,490       |
| Other Required Fees          | <u>\$600</u>   | <u>\$600</u>   | <u>\$600</u>   | <u>\$600</u>   | <u>\$700</u>   | <u>\$780</u>   |
| Total                        | \$40,010       | \$41,540       | \$42,710       | \$43,980       | \$45,640       | \$47,090       |

The University competes primarily with Catholic colleges and universities in Philadelphia and its suburbs. On the basis of enrollment and applicant information, the University believes that its most significant competitors are the institutions listed below:

| <u>Institution</u>              | <u>Tuition &amp; Fees</u> | <u>2016-17<br/>Room &amp; Board</u> | <u>Total</u>    |
|---------------------------------|---------------------------|-------------------------------------|-----------------|
| Villanova University            | \$49,430                  | \$13,093                            | \$62,523        |
| St. Joseph's University         | \$43,020                  | \$14,524                            | \$57,544        |
| LaSalle University              | \$41,100                  | \$15,070                            | \$56,170        |
| Immaculata University           | \$35,210                  | \$12,500                            | \$47,710        |
| <b>Gwynedd Mercy University</b> | <b>\$34,380</b>           | <b>\$11,300</b>                     | <b>\$45,680</b> |
| Chestnut Hill College *         | \$34,950                  | \$10,400                            | \$45,350        |
| Holy Family University *        | \$30,346                  | \$13,576                            | \$43,922        |
| Cabrini University *            | \$31,350                  | \$12,340                            | \$43,690        |
| Neumann University              | \$28,580                  | \$12,158                            | \$40,738        |

\* 2017-18 Rates

Source: CollegeBoard

## Student Financial Aid

During the 2016-17 academic year, 1271 full-time undergraduate students, or 95.9% of the University's full-time undergraduate enrollment, received some form of institutional financial aid. Such assistance is designed to supplement the contribution that a student and his or her family can make toward the payment of tuition and other educational expenses.

## Faculty and Staff

At its inception, the University was staffed entirely by members of the Sisters of Mercy. The University now employs a faculty of men and women, only some of whom have chosen a religious life. In prior years, the Sisters of Mercy's services as faculty members were considered contributed services. Since the 1996-97 academic year, however, the University has compensated the Sisters of Mercy assigned as faculty to the University full salaries and benefits.

For the 2016-17 academic year, the University employs approximately 80 full-time faculty, approximately 42.0% of whom hold doctoral degrees and 25.0% of whom are tenured. The University's full-time faculty is augmented by a part-time faculty of approximately 300 members. The ratio of full-time faculty to full-time students is 1 to 11. The average class size of approximately 20.

For the 2016-17 academic year, the University has a total of approximately 288 full-time and 355 part-time employees. The University also utilizes approximately 209 student employees. No employees are represented by a union and relationships with employees are considered by the University to be good.

The following is a breakdown of employees by position:

|                               | <u>Number</u> |
|-------------------------------|---------------|
| Faculty (full-time)           | 80            |
| Faculty (part-time)*          | 300           |
| Administrators (full-time)    | 43            |
| Support personnel (full-time) | 165           |
| Support personnel (part-time) | 55            |
| Total                         | 643           |

\*The large proportion of part-time faculty is related to the University's niche programs, which are heavily weighted in the health sciences, for which faculty are frequently adjuncts at many institutions. Such adjunct faculty members are also often actively employed in clinical settings, which is considered an enhancement to their expertise.



## Maguire Hall Classrooms

### Financial Summary

The following financial summary of the University for the past five fiscal years ended June 30 has been derived from the University's audited financial statements for those years.

### Gwynedd Mercy University Consolidated Statements of Financial Position For Years Ended June 30, 2012-2016

|  | 2012                 | 2013                  | 2014                  | 2015                  | 2016                  |
|--|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>ASSETS</b>                                |                      |                       |                       |                       |                       |
| Cash and cash equivalents                    | \$ 16,259,000        | \$ 13,451,000         | \$ 13,727,000         | \$ 11,284,000         | \$ 12,404,000         |
| Restricted cash                              | 1,033,000            | 1,056,000             | 987,000               | 244,000               | 73,000                |
| Student accounts receivable, net             | 1,664,000            | 1,904,000             | 2,279,000             | 2,914,000             | 2,675,000             |
| Pledges receivable, net                      | 3,714,000            | 2,230,000             | 4,373,000             | 3,394,000             | 2,650,000             |
| Student loans receivable, net                | 2,599,000            | 2,316,000             | 1,924,000             | 1,896,000             | 1,860,000             |
| Other receivables                            | 77,000               | 78,000                | 123,000               | 396,000               | 747,000               |
| Investments                                  | 16,528,000           | 20,754,000            | 25,943,000            | 29,112,000            | 29,563,000            |
| Deferred expenses and other assets           | 1,495,000            | 1,326,000             | 301,000               | 469,000               | 579,000               |
| Deposits with trustees                       | 13,263,000           | 8,227,000             | 4,265,000             | 4,183,000             | 4,191,000             |
| Fixed assets, net                            | 41,678,000           | 53,245,000            | 56,554,000            | 54,499,000            | 53,425,000            |
| <b>TO TAL ASSETS</b>                         | <b>\$ 98,310,000</b> | <b>\$ 104,587,000</b> | <b>\$ 110,476,000</b> | <b>\$ 108,391,000</b> | <b>\$ 108,167,000</b> |
| <b>LIABILITIES</b>                           |                      |                       |                       |                       |                       |
| Accounts payable                             | \$ 1,220,000         | \$ 1,351,000          | \$ 1,235,000          | \$ 611,000            | \$ 404,000            |
| Construction payable                         | 1,976,000            | 2,377,000             | 252,000               | -                     | -                     |
| Accrued expenses and other liabilities       | 1,332,000            | 2,479,000             | 3,303,000             | 3,836,000             | 4,622,000             |
| Prepaid tuition and fees                     | 2,708,000            | 2,164,000             | 1,851,000             | 2,852,000             | 3,561,000             |
| Bonds payable - current portion              | 915,000              | 955,000               | 968,000               | 955,000               | 995,000               |
| Federal government investment - loan program | 2,137,000            | 2,147,000             | 2,250,000             | 2,237,000             | 2,081,000             |
| Bonds payable - long term portion            | 45,523,000           | 44,568,000            | 42,436,000            | 41,534,000            | 40,591,000            |
| <b>TO TAL LIABILITIES</b>                    | <b>\$ 55,811,000</b> | <b>\$ 56,041,000</b>  | <b>\$ 52,295,000</b>  | <b>\$ 52,025,000</b>  | <b>\$ 52,254,000</b>  |
| <b>NET ASSETS</b>                            |                      |                       |                       |                       |                       |
| Unrestricted                                 | \$ 24,375,000        | \$ 25,767,000         | \$ 36,303,000         | \$ 35,256,000         | \$ 35,867,000         |
| Temporarily Restricted                       | 7,823,000            | 11,731,000            | 9,368,000             | 9,036,000             | 8,675,000             |
| Permanently Restricted                       | 10,301,000           | 11,048,000            | 12,510,000            | 12,074,000            | 11,371,000            |
| <b>TO TAL NET ASSETS</b>                     | <b>\$ 42,499,000</b> | <b>\$ 48,546,000</b>  | <b>\$ 58,181,000</b>  | <b>\$ 56,366,000</b>  | <b>\$ 55,913,000</b>  |
| <b>TO TAL LIABILITIES AND NET ASSETS</b>     | <b>\$ 98,310,000</b> | <b>\$ 104,587,000</b> | <b>\$ 110,476,000</b> | <b>\$ 108,391,000</b> | <b>\$ 108,167,000</b> |



**Gwynedd Mercy University**  
**Consolidated Statements of Activities**  
**For Years Ended June 30, 2012-2016**

|  | 2012                 | 2013                 | 2014                 | 2015                 | 2016                 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b> |                      |                      |                      |                      |                      |
| Tuition and fees                                       | \$ 49,118,000        | \$ 47,810,000        | \$ 48,682,000        | \$ 50,929,000        | \$ 57,875,000        |
| Less: student aid                                      | (15,860,000)         | (15,024,000)         | (16,483,000)         | (16,839,000)         | (18,148,000)         |
| Net tuition and fees                                   | 33,258,000           | 32,786,000           | 32,199,000           | 34,090,000           | 39,727,000           |
| Government appropriations (federal and state)          | 498,000              | 489,000              | 4,542,000            | 1,192,000            | 573,000              |
| Investment income                                      | (43,000)             | 39,000               | 616,000              | 150,000              | 19,000               |
| Gifts and grants                                       | 227,000              | 243,000              | 425,000              | 274,000              | 248,000              |
| Other sources  | 181,000              | 280,000              | 201,000              | 120,000              | 298,000              |
| Auxiliary enterprises                                  | 5,798,000            | 5,527,000            | 5,374,000            | 4,884,000            | 4,822,000            |
| Satisfaction of program and time restriction           | 2,147,000            | 2,112,000            | 7,887,000            | 2,799,000            | 2,559,000            |
| <b>TOTAL REVENUES, GAINS, AND OTHER SUPPORT</b>        | <b>42,066,000</b>    | <b>41,476,000</b>    | <b>51,244,000</b>    | <b>43,509,000</b>    | <b>48,246,000</b>    |
| <b>UNRESTRICTED EXPENSES AND OTHER DEDUCTIONS</b>      |                      |                      |                      |                      |                      |
| Instruction  | 15,327,000           | 15,801,000           | 18,182,000           | 21,400,000           | 23,905,000           |
| Public service   | 646,000              | 675,000              | 326,000              | 609,000              | 660,000              |
| Academic support                                       | 1,454,000            | 1,469,000            | 1,485,000            | 1,624,000            | 1,203,000            |
| Student services                                       | 6,764,000            | 6,787,000            | 6,461,000            | 5,978,000            | 6,150,000            |
| Institutional support                                  | 10,819,000           | 11,514,000           | 11,098,000           | 10,613,000           | 11,138,000           |
| Auxiliary enterprises                                  | 4,710,000            | 4,978,000            | 4,139,000            | 4,463,000            | 4,584,000            |
| <b>TOTAL OPERATING EXPENSES</b>                        | <b>39,720,000</b>    | <b>41,224,000</b>    | <b>41,691,000</b>    | <b>44,687,000</b>    | <b>47,640,000</b>    |
| <b>INCOME (LOSS) FROM OPERATIONS</b>                   | <b>2,346,000</b>     | <b>252,000</b>       | <b>9,553,000</b>     | <b>(1,178,000)</b>   | <b>606,000</b>       |
| <b>UNRESTRICTED NON-OPERATING INCOME (LOSS)</b>        |                      |                      |                      |                      |                      |
| Investment income nonoperating                         | (30,000)             | 1,140,000            | 983,000              | 131,000              | 5,000                |
| <b>TOTAL NON-OPERATING INCOME (LOSS)</b>               | <b>(30,000)</b>      | <b>1,140,000</b>     | <b>983,000</b>       | <b>131,000</b>       | <b>5,000</b>         |
| <b>CHANGES IN UNRESTRICTED NET ASSETS</b>              | <b>2,316,000</b>     | <b>1,392,000</b>     | <b>10,536,000</b>    | <b>(1,047,000)</b>   | <b>611,000</b>       |
| <b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>    | <b>851,000</b>       | <b>3,908,000</b>     | <b>(2,363,000)</b>   | <b>(332,000)</b>     | <b>(361,000)</b>     |
| <b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>    | <b>(76,000)</b>      | <b>747,000</b>       | <b>1,462,000</b>     | <b>(436,000)</b>     | <b>(703,000)</b>     |
| <b>NET ASSETS, BEGINNING</b>                           | <b>39,408,000</b>    | <b>42,499,000</b>    | <b>48,546,000</b>    | <b>58,181,000</b>    | <b>56,366,000</b>    |
| <b>NET ASSETS, ENDING</b>                              | <b>\$ 42,499,000</b> | <b>\$ 48,546,000</b> | <b>\$ 58,181,000</b> | <b>\$ 56,366,000</b> | <b>\$ 55,913,000</b> |

## Accounting Matters

The University presents its financial statements in accordance with generally accepted accounting principles applicable to colleges and universities. The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in Statement of Financial Accounting Standards (“SFAS”) No. 117, “Financial Statements of Not-For-Profit Organizations.” Under SFAS No. 117, the University is required to report its financial position and activities according to their classes of net assets, unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

In the opinion of the University, there has been no material adverse change in the financial condition of the University since June 30, 2016, the most recent date for which audited financial statements were published.

Potential purchasers of the Bonds should read the University's audited financial statements for the year ended June 30, 2016, which are included as Appendix B to this Official Statement, in their entirety for more information regarding the University's financial position.

### Private Gifts, Contributions and Grants

Private gifts, contributions and grants for the past five fiscal years are outlined in the following table:

|                                  | <u>2011-12</u>     | <u>2012-13</u>     | <u>2013-14</u>      | <u>2014-15</u>     | <u>2015-16</u>     |
|----------------------------------|--------------------|--------------------|---------------------|--------------------|--------------------|
| Unrestricted Gifts               | \$277,000          | \$243,000          | \$425,000           | \$274,000          | \$248,000          |
| Restricted Gifts                 | 2,527,000          | 2,287,000          | 4,817,000           | 1,348,000          | 1,070,000          |
| <b>Sub-Total (Private Gifts)</b> | <b>2,804,000</b>   | <b>2,530,000</b>   | <b>5,242,000</b>    | <b>1,622,000</b>   | <b>1,318,000</b>   |
| Federal Grants                   | 603,000            | 649,000            | 509,000             | 627,000            | 485,000            |
| State Grants                     | <u>421,000</u>     | <u>3,430,000</u>   | <u>4,449,000</u>    | <u>1,031,000</u>   | <u>492,000</u>     |
| <b>Grand Total:</b>              | <b>\$3,828,000</b> | <b>\$6,609,000</b> | <b>\$10,200,000</b> | <b>\$3,280,000</b> | <b>\$2,295,000</b> |

### Capital Campaign

The University recently completed its "Futures" campaign, which began on January 1, 2008 and ended on December 31, 2014. The goal of the "Futures" campaign was \$24 million. Results totaled \$27.3 million before a Commonwealth of Pennsylvania grant of \$8 million, which brought the total commitment amount to \$35.3 million. Below is a summary of the campaign results through January 31, 2017:

| <u>Campaign Pricing</u>  | <u>Goal</u>         | <u>Commitment</u>   | <u>Percent of Goal</u> | <u>Receipts</u>     |
|--------------------------|---------------------|---------------------|------------------------|---------------------|
| Unrestricted Annual Gift | \$2,000,000         | \$2,193,394         | 110%                   | \$2,085,298         |
| Academic Excellence      | 8,000,000           | 11,664,456          | 146%                   | 11,093,359          |
| Endowment                | 8,000,000           | 8,029,703           | 100%                   | 5,616,101           |
| Student Life             | 2,000,000           | 1,679,514           | 84%                    | 1,744,621           |
| Academic Building        | <u>4,000,000</u>    | <u>3,710,438</u>    | <u>93%</u>             | <u>3,263,782</u>    |
| <b>Total</b>             | <b>\$24,000,000</b> | <b>\$27,277,505</b> | <b>114%</b>            | <b>\$23,803,161</b> |
| Commonwealth of PA Grant |                     | <u>8,000,000</u>    |                        |                     |
| <b>Grand Total</b>       |                     | <b>\$35,277,505</b> |                        |                     |

The University's current mini campaign, "Good Today...Better Tomorrow", has a goal of \$5 million. The current allocation of commitments and receipts as of January 31, 2017 is shown below:

| <u>Campaign Pricing</u> | <u>Goal</u>        | <u>Commitment</u>  | <u>Percent of Goal</u> | <u>Receipts</u>    |
|-------------------------|--------------------|--------------------|------------------------|--------------------|
| <b>Total</b>            | <b>\$5,000,000</b> | <b>\$3,929,818</b> | <b>78.6%</b>           | <b>\$3,619,288</b> |

## Endowment Funds

The Finance Committee of the Board has chosen a growth-oriented investment approach, which maintains an invested position of 65.0% equities and 35.0% fixed income securities. The University's endowment funds are professionally managed with benchmarks, established by the Finance Committee, by which to judge manager performance.

During the 2016 fiscal year, the University utilized 7% of the average value of its endowment assets over the most recent three-year period, which was considered an anomaly by management. The fiscal year 2017 endowment draw is expected to be more consistent with the years prior to fiscal 2016. The fiscal year-end fair market values of the endowment funds for the past five fiscal years are shown in the following table:

| <u>Fiscal Year</u>   | <u>2011-12</u> | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> |
|----------------------|----------------|----------------|----------------|----------------|----------------|
| Amount               | \$16,378,000   | \$20,551,000   | \$25,943,000   | \$29,112,000   | \$29,563,000   |
| <u>Calendar Year</u> | <u>2012</u>    | <u>2013</u>    | <u>2014</u>    | <u>2015</u>    | <u>2016</u>    |
| Return               | 13.3%          | 13.9%          | 4.5%           | -1.5%          | 3.5%           |

## Pension Program

The University has voluntary contributory pension plans, which cover substantially all full-time employees. The University contributes an amount not to exceed 7.0% of the employees' gross salaries. There is no defined benefit plan and no unfunded pension liability.

## Litigation

The University, like other similar institutions, is subject to a variety of suits and proceedings arising out of the ordinary course of business. In the opinion of the University, no litigation, individually or in the aggregate, is currently pending, or to the knowledge of the University threatened against it, which would, if adversely determined, result in a material adverse effect on its financial condition.

## Management's Discussion

### Niche Programs:

The University has endeavored to maintain strong niche programs, which include health science related disciplines, such as nursing (which offers many programs and majors). The University is agile, able to implement strategic tweaks to its niche programs or strategically discontinue majors. Niche programs continue to contribute to the University's healthy matriculation rate, which was 37.0% for fiscal year 2016.

### Finance:

The University carefully monitors its overall tuition discount, which was 31.4% for fiscal year 2016 and has remained stable for the past 10 years. Cash & Investments have grown from \$26.5 million in fiscal year 2010 to \$42.0 million in fiscal year 2016.

The University's indebtedness was a blend of 54.0% fixed and 46.0% variable as of FY 2016. Actual Debt Service as a percentage of Operating Expenses was a manageable 3.3% in Fiscal Year 2016. The ratio of fixed to variable rate debt is not expected to change materially following the issuance of the Series 2017 Bonds. The historically attractive rates associated with the University's variable rate debt (with no interest rate swap ever employed), has served to create an attractive blended rate and very manageable overall interest expense. The University has always maintained a healthy cushion of unrestricted cash and investments to support its variable rate indebtedness. Additionally, in 2016 the University purchased an interest rate cap related to its weekly variable rate debt for 3 years providing protection at 2.0%.

### University Leadership:

All senior members of the University's leadership have significant experience in higher education and the University has been able to be agile and respond quickly when facing competitive challenges in the market. Dr. Kathleen Owens, President of the University since 2002, has announced her retirement, effective July 31, 2017. The Board of Trustees has elected Deanne H. D'Emilio, J.D. as the next President of the University effective August 1, 2017. Dr. Owens will begin a sabbatical on August 1, 2017, during which she will be available to her successor to aid in a smooth transition.



APPENDIX B

AUDITED FINANCIAL STATEMENTS OF GWYNEDD MERCY UNIVERSITY FOR THE FISCAL  
YEARS ENDED JUNE 30, 2016 AND 2015

[ THIS PAGE INTENTIONALLY LEFT BLANK ]

# **Gwynedd Mercy University**

## **Financial Statements**

June 30, 2016 and 2015



Candor. Insight. Results.

|                                     | <u>Page</u> |
|-------------------------------------|-------------|
| <b>Independent Auditors' Report</b> | 1           |
| <b>Financial Statements</b>         |             |
| Statement of Financial Position     | 3           |
| Statement of Activities             | 4           |
| Statement of Cash Flows             | 6           |
| Notes to Financial Statements       | 7           |





Baker Tilly Virchow Krause, LLP  
1650 Market St, Ste 4500  
Philadelphia, PA 19103-7341  
tel 215 972 0701  
tel 800 267 9405  
fax 888 264 9617  
bakertilly.com

## **Independent Auditors' Report**

Board of Trustees  
Gwynedd Mercy University

We have audited the accompanying financial statements of Gwynedd Mercy University, which comprise the statement of financial position as of June 30, 2016 and 2015 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gwynedd Mercy University as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Philadelphia, Pennsylvania  
October 18, 2016

**Gwynedd Mercy University**

## Statement of Financial Position

June 30, 2016 and 2015

|   | <u>2016</u>           | <u>2015</u>           |
|---|-----------------------|-----------------------|
| <b>Assets</b>   |                       |                       |
| <b>Assets</b>   |                       |                       |
| Cash and cash equivalents   | \$ 12,404,000         | \$ 11,284,000         |
| Restricted cash   | 73,000                | 244,000               |
| Student accounts receivable, net of allowance of \$1,537,000<br>and \$1,670,000 at June 30, 2016 and 2015, respectively | 2,675,000             | 2,914,000             |
| Pledges receivable, net   | 2,650,000             | 3,394,000             |
| Student loans receivable, net of allowance of \$296,000<br>at June 30, 2016 and 2015                                    | 1,860,000             | 1,896,000             |
| Other receivables   | 747,000               | 396,000               |
| Investments   | 29,563,000            | 29,112,000            |
| Deferred expenses and other assets  | 579,000               | 469,000               |
| Deposits with trustees  | 4,191,000             | 4,183,000             |
| Fixed assets, net   | <u>53,425,000</u>     | <u>54,499,000</u>     |
| Total assets  | <u>\$ 108,167,000</u> | <u>\$ 108,391,000</u> |
| <b>Liabilities and Net Assets</b>   |                       |                       |
| <b>Liabilities</b>  |                       |                       |
| Accounts payable  | \$ 404,000            | \$ 611,000            |
| Accrued expenses and other liabilities  | 4,622,000             | 3,836,000             |
| Prepaid tuition and fees  | 3,561,000             | 2,852,000             |
| Bonds payable - current portion   | 995,000               | 955,000               |
| Federal government investment - loan program  | 2,081,000             | 2,237,000             |
| Bonds payable - long-term portion   | <u>40,591,000</u>     | <u>41,534,000</u>     |
| Total liabilities   | <u>52,254,000</u>     | <u>52,025,000</u>     |
| <b>Net Assets</b>   |                       |                       |
| Unrestricted  | 35,867,000            | 35,256,000            |
| Temporarily restricted  | 8,675,000             | 9,036,000             |
| Permanently restricted  | <u>11,371,000</u>     | <u>12,074,000</u>     |
| Total net assets  | <u>55,913,000</u>     | <u>56,366,000</u>     |
| Total liabilities and net assets  | <u>\$ 108,167,000</u> | <u>\$ 108,391,000</u> |

See notes to financial statements

**Gwynedd Mercy University**

## Statement of Activities

Year Ended June 30, 2016

|  | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|--|----------------------|-----------------------------------|-----------------------------------|----------------------|
| <b>Operating Activities</b>                        |                      |                                   |                                   |                      |
| <b>Operating Revenue</b>                           |                      |                                   |                                   |                      |
| Tuition and fees                                   | \$ 57,875,000        | \$ -                              | \$ -                              | \$ 57,875,000        |
| Less: institutional aid                            | (18,148,000)         | -                                 | -                                 | (18,148,000)         |
| Net tuition and fees                               | 39,727,000           | -                                 | -                                 | 39,727,000           |
| Government appropriations - federal                | 81,000               | 404,000                           | -                                 | 485,000              |
| Government appropriations - state                  | 492,000              | -                                 | -                                 | 492,000              |
| Investment income                                  | 19,000               | 16,000                            | -                                 | 35,000               |
| Gifts and grants                                   | 248,000              | 939,000                           | -                                 | 1,187,000            |
| Other sources                                      | 298,000              | -                                 | -                                 | 298,000              |
| Auxiliary enterprises                              | 4,822,000            | -                                 | -                                 | 4,822,000            |
|  | 45,687,000           | 1,359,000                         | -                                 | 47,046,000           |
| Endowment transfer                                 | -                    | 839,000                           | (839,000)                         | -                    |
| Satisfaction of program restriction                | 2,338,000            | (2,338,000)                       | -                                 | -                    |
| Satisfaction of time restriction                   | 221,000              | (221,000)                         | -                                 | -                    |
| Total operating revenue                            | 48,246,000           | (361,000)                         | (839,000)                         | 47,046,000           |
| <b>Operating Expenditures</b>                      |                      |                                   |                                   |                      |
| Instruction  | 23,905,000           | -                                 | -                                 | 23,905,000           |
| Public service                                     | 660,000              | -                                 | -                                 | 660,000              |
| Academic support                                   | 1,203,000            | -                                 | -                                 | 1,203,000            |
| Student services                                   | 6,150,000            | -                                 | -                                 | 6,150,000            |
| Institutional support                              | 11,138,000           | -                                 | -                                 | 11,138,000           |
| Auxiliary enterprises                              | 4,584,000            | -                                 | -                                 | 4,584,000            |
| Total operating expenditures                       | 47,640,000           | -                                 | -                                 | 47,640,000           |
| Change in net assets from operating activities     | 606,000              | (361,000)                         | (839,000)                         | (594,000)            |
| <b>Non-Operating Activities</b>                    |                      |                                   |                                   |                      |
| Endowment and other gifts                          | -                    | -                                 | 131,000                           | 131,000              |
| Investment income nonoperating                     | 5,000                | -                                 | 5,000                             | 10,000               |
| Change in net assets from non-operating activities | 5,000                | -                                 | 136,000                           | 141,000              |
| Change in net assets                               | 611,000              | (361,000)                         | (703,000)                         | (453,000)            |
| <b>Net Assets, Beginning</b>                       | 35,256,000           | 9,036,000                         | 12,074,000                        | 56,366,000           |
| <b>Net Assets, Ending</b>                          | <u>\$ 35,867,000</u> | <u>\$ 8,675,000</u>               | <u>\$ 11,371,000</u>              | <u>\$ 55,913,000</u> |

See notes to financial statements

**Gwynedd Mercy University**

## Statement of Activities

Year Ended June 30, 2015

|  | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|--|----------------------|-----------------------------------|-----------------------------------|----------------------|
| <b>Operating Activities</b>                        |                      |                                   |                                   |                      |
| <b>Operating Revenue</b>                           |                      |                                   |                                   |                      |
| Tuition and fees                                   | \$ 50,929,000        | \$ -                              | \$ -                              | \$ 50,929,000        |
| Less: institutional aid                            | (16,839,000)         | -                                 | -                                 | (16,839,000)         |
| Net tuition and fees                               | 34,090,000           | -                                 | -                                 | 34,090,000           |
| Government appropriations - federal                | 161,000              | 466,000                           | -                                 | 627,000              |
| Government appropriations - state                  | 1,031,000            | -                                 | -                                 | 1,031,000            |
| Investment income                                  | 150,000              | 3,000                             | -                                 | 153,000              |
| Gifts and grants                                   | 274,000              | 1,248,000                         | -                                 | 1,522,000            |
| Other sources                                      | 120,000              | -                                 | -                                 | 120,000              |
| Auxiliary enterprises                              | 4,884,000            | -                                 | -                                 | 4,884,000            |
|  | 40,710,000           | 1,717,000                         | -                                 | 42,427,000           |
| Endowment transfer                                 | -                    | 750,000                           | (750,000)                         | -                    |
| Satisfaction of program restriction                | 2,578,000            | (2,578,000)                       | -                                 | -                    |
| Satisfaction of time restriction                   | 221,000              | (221,000)                         | -                                 | -                    |
| Total operating revenue                            | 43,509,000           | (332,000)                         | (750,000)                         | 42,427,000           |
| <b>Operating Expenditures</b>                      |                      |                                   |                                   |                      |
| Instruction  | 21,400,000           | -                                 | -                                 | 21,400,000           |
| Public service                                     | 609,000              | -                                 | -                                 | 609,000              |
| Academic support                                   | 1,624,000            | -                                 | -                                 | 1,624,000            |
| Student services                                   | 5,978,000            | -                                 | -                                 | 5,978,000            |
| Institutional support                              | 10,613,000           | -                                 | -                                 | 10,613,000           |
| Auxiliary enterprises                              | 4,463,000            | -                                 | -                                 | 4,463,000            |
| Total operating expenditures                       | 44,687,000           | -                                 | -                                 | 44,687,000           |
| Change in net assets from operating activities     | (1,178,000)          | (332,000)                         | (750,000)                         | (2,260,000)          |
| <b>Non-Operating Activities</b>                    |                      |                                   |                                   |                      |
| Endowment and other gifts                          | -                    | -                                 | 100,000                           | 100,000              |
| Investment income nonoperating                     | 131,000              | -                                 | 214,000                           | 345,000              |
| Change in net assets from non-operating activities | 131,000              | -                                 | 314,000                           | 445,000              |
| Change in net assets                               | (1,047,000)          | (332,000)                         | (436,000)                         | (1,815,000)          |
| <b>Net Assets, Beginning</b>                       | 36,303,000           | 9,368,000                         | 12,510,000                        | 58,181,000           |
| <b>Net Assets, Ending</b>                          | <u>\$ 35,256,000</u> | <u>\$ 9,036,000</u>               | <u>\$ 12,074,000</u>              | <u>\$ 56,366,000</u> |

See notes to financial statements

**Gwynedd Mercy University**

## Statement of Cash Flows

Years Ended June 30, 2016 and 2015

|   | <u>2016</u>                 | <u>2015</u>                 |
|---|-----------------------------|-----------------------------|
| <b>Cash Flows from Operating Activities</b>   |                             |                             |
| Change in net assets  | \$ (453,000)                | \$ (1,815,000)              |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                             |                             |
| Contributions restricted for long-term investment   | (131,000)                   | (100,000)                   |
| Provision for loss on accounts receivable   | 299,000                     | 230,000                     |
| Depreciation and amortization   | 2,798,000                   | 2,835,000                   |
| Change in deferred rent   | 32,000                      | 33,000                      |
| Loss on investments   | 506,000                     | 78,000                      |
| Changes in assets and liabilities:  |                             |                             |
| (Increase) decrease:  |                             |                             |
| Student accounts receivable   | (60,000)                    | (839,000)                   |
| Student loans receivable  | 36,000                      | 2,000                       |
| Deferred expense and other assets   | (110,000)                   | (168,000)                   |
| Pledges receivable  | 744,000                     | 979,000                     |
| Other receivables   | (351,000)                   | (273,000)                   |
| Increase (decrease)   |                             |                             |
| Accounts payable  | (331,000)                   | (624,000)                   |
| Accrued expenses and other liabilities  | 754,000                     | 500,000                     |
| Prepaid tuition and fees  | 709,000                     | 1,001,000                   |
| Federal government investment - loan program  | (156,000)                   | (13,000)                    |
| Net cash provided by operating activities   | <u>4,286,000</u>            | <u>1,826,000</u>            |
| <b>Cash Flows From Investing Activities</b>   |                             |                             |
| Purchase of investments   | (1,262,000)                 | (4,747,000)                 |
| Proceeds from sale of investments   | 305,000                     | 1,500,000                   |
| Use of deposits with bond trustees  | (8,000)                     | 82,000                      |
| Restricted cash   | 171,000                     | 743,000                     |
| Purchase of fixed assets  | <u>(1,548,000)</u>          | <u>(979,000)</u>            |
| Net cash used in investing activities   | <u>(2,342,000)</u>          | <u>(3,401,000)</u>          |
| <b>Cash Flows From Financing Activities</b>   |                             |                             |
| Contributions restricted for long-term investment   | 131,000                     | 100,000                     |
| Contributions restricted for long-lived assets  | -                           | -                           |
| Repayment of long term debt   | <u>(955,000)</u>            | <u>(968,000)</u>            |
| Net cash used in financing activities   | <u>(824,000)</u>            | <u>(868,000)</u>            |
| Net increase (decrease) in cash   | 1,120,000                   | (2,443,000)                 |
| <b>Cash and Cash Equivalents, Beginning</b>   | <u>11,284,000</u>           | <u>13,727,000</u>           |
| <b>Cash and Cash Equivalents, Ending</b>  | <u><u>\$ 12,404,000</u></u> | <u><u>\$ 11,284,000</u></u> |
| <b>Supplemental Disclosure of Cash Flow Information</b>                                     |                             |                             |
| Interest paid, net of amounts capitalized   | <u><u>\$ 1,243,000</u></u>  | <u><u>\$ 1,251,000</u></u>  |
| <b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>                |                             |                             |
| Amounts included in accounts payable for purchases of fixed assets                          | <u><u>\$ 124,000</u></u>    | <u><u>\$ -</u></u>          |

See notes to financial statements

### 1. Organization

Gwynedd Mercy University (the "University") is a Catholic University with its main campus located in Gwynedd Valley, Pennsylvania and is incorporated under the laws of the Commonwealth of Pennsylvania as a Membership Corporation (the "Corporation"). The Conference for Mercy Higher Education, Inc. is a member of the Corporation and has the authority to appoint the University's Board of Trustees. The University was founded and sponsored by the Sisters of Mercy in 1948 with the goal of creating a learning community rooted in Gospel values and rich in the liberal arts. The University continues to pursue these goals through its accredited undergraduate, graduate, doctoral, and accelerated learning degree programs.

### 2. Summary of Significant Accounting Policies

#### Basis of Presentation

The University's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The University reports total assets, liabilities and net assets in a statement of financial position; reports the change in net assets in a statement of activities; and reports the sources and uses of cash and cash equivalents in a statement of cash flows.

Net assets and revenues, gains, expenses and losses are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

**Permanently restricted** - Permanently restricted funds represent gifts and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity. The Board of Trustees has adopted Pennsylvania regulations governing distributable income from permanently restricted net assets. Distributable income is a stipulated percentage ranging from 2% to 7% of the average asset value. The University has elected to distribute 7.0% and 7.0% per annum for the years ended June 30, 2016 and 2015, respectively.

**Temporarily restricted** - Net assets whose use by the University is subject to donor-imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Donor contributions of long lived assets and donations to acquire long lived assets are classified as restricted support. The University implies time restrictions on the use of contributed long lived assets and assets contributed to acquire long lived assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

**Unrestricted** - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

**Cash and Cash Equivalents**

For the statement of cash flows, the University includes cash on deposit, cash on hand, money market funds and certificates of deposit with original maturities less than three months to be cash equivalents.

**Restricted Cash**

Restricted cash includes funds legally restricted for certain construction projects.

**Student Tuition Revenue**

Student tuition revenue is recorded at the established rates net of financial aid provided directly by the University, endowed scholarships, and certain federal grants. The University recognizes tuition revenue in the semester that it is earned. Any payments received in advance for the subsequent year are classified as deferred tuition, which is included with prepaid tuition and fees in the statement of financial position.

**Government Grants and Student Aid**

The government grants and student aid amounts reported do not include funds credited to students under various federal and state grant programs. These grants are similar to agency funds as the University acts only as custodian and disbursing agent. Government grants restricted for the purchase of long-lived assets are reported as temporarily restricted government appropriations as allowable expenditures are made under the terms of the grant agreement.

**Student Accounts Receivable**

Student accounts receivable are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on the University's historical losses and periodic review of individual accounts. Student accounts receivable are written off when they are determined to be uncollectible based on management's assessment of individual accounts.

**Student Loans Receivable**

Student loans receivable represents loans to students funded by advances to the University by the federal government under the Federal Perkins Loan Program and the Nursing Student Loan Program (the "Programs"). Such funds may be re-loaned by the University after collection, but in the event that the University no longer participates in the Programs, the amounts are refundable to the federal government. The federal government's portion of these funds at June 30, 2016 and 2015 was \$2,081,000 and \$2,237,000 respectively.

The prescribed practices for the Programs do not provide for accrual of interest on student loans receivable. Accordingly, interest on loans is recorded as received and is reinvested to support additional loans; uncollectible loans are not recognized until the loans are canceled or written-off in conformity with the Programs' requirements. The impact of recording interest income on a cash basis is not considered significant. In addition, the credit quality of the student is not evaluated after the initial approval and calculation of the loans. Delinquent loans and the allowance for losses on loans receivable are reviewed by management, but are not material to the overall financial statements.



**Contributions**

In accordance with authoritative guidance, the University records certain promises to give as revenue when the promise is made. In addition, the authoritative guidance requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires the University to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Donor-restricted contributions are reported as unrestricted operating revenue when the restriction is satisfied within the same year that the contribution is received.

Contributions are reported as an increase in the appropriate net asset category in the year received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value using net present value techniques. The discount is computed using a credit-adjusted interest rate. Conditional promises to give are not included as support until such time as the conditions are substantially met.

**Investments and Deposits with Trustees**

Adjustments to reflect increases or decreases in fair value, referred to as unrealized gains and losses, are reported in the statement of activities. The cost of investments received as gifts are recorded at fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

All realized and unrealized gains and losses arising from the sale or appreciation (depreciation) in fair value of investments, and all income from investments, are reported as changes in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor-imposed stipulations, or by law.

Deposits with trustees consists of cash and cash equivalents in fulfillment of debt related indentures. These funds are restricted to future debt service or projects as defined by the debt indenture.

**Fixed Assets**

Property and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Major improvements to property, along with furniture and equipment with a unit cost of \$5,000 or over, are capitalized. Depreciation on physical plant and equipment is recorded by the straight-line method. Depreciation related to auxiliary enterprises is recorded as auxiliary enterprises expense. Estimated useful lives are as follows:

|                                      | <u>Years</u> |
|--------------------------------------|--------------|
| Building and improvements            | 40           |
| Furniture, furnishings and equipment | 5 - 10       |
| Library collections                  | 10           |
| Land and land improvements           | 10 - 20      |

**Advertising**

The University follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended June 30, 2016 and 2015 was \$262,000 and \$430,000, respectively.

**Allocation of Certain Expenses**

The statement of activities presents expenses by functional classification. Operation and maintenance of plant, interest and depreciation are allocated based on various factors.

**Use of Estimates**

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

**Title IV Requirements**

The University participates in Government Student Financial Assistance Programs ("Title IV") administered by the U.S. Department of Education ("ED") for the payment of student tuitions. A substantial number of University students are dependent upon the University's continued participation in the Title IV programs for assistance in tuition payment.

Institutions participating in Title IV programs are also required by ED to demonstrate financial responsibility. ED determines an institution's financial responsibility through the calculation of the composite score based upon certain financial ratios as defined in regulations. Institutions receiving a composite score of 1.5 or greater are considered fully financially responsible. Institutions receiving a composite score between 1.0 and 1.5 are subject to additional monitoring and institutions receiving a score below 1.0 are required to submit financial guarantees in order to continue participation in the Title IV programs. As of June 30, 2016, and for the year then ended, the University's composite score is estimated to be greater than 1.5.

**Concentrations of Risk**

At June 30, 2016 and 2015, the University had deposits and investments in major financial institutions which exceeded Federal Depository Insurance Corporation limits. These financial institutions have strong credit ratings and management believes that credit risk related to these deposits and investments is minimal.

The University primarily invests its funds in money market mutual funds and investment trust funds. These funds generally invest in common stocks and highly liquid U.S. Government and corporate obligations. Investments in money market and trust funds are not insured or guaranteed by the U.S. Government; however, management believes that credit risk related to these investments is minimal.

**Income Taxes**

The University is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements.

The University follows the Financial Accounting Standards Board ("FASB") guidance that requires a tax position to be recognized or derecognized based on a "more-likely-than-not" threshold. This applies to positions taken or expected to be taken in a tax return. The University does not believe its financial statements include any uncertain tax positions.

The University's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. No interest or penalties were recognized in 2016 or 2015.

**Reclassification**

Certain balances as of June 30, 2015 have been reclassified to conform with the presentation as of June 30, 2016.

**New Accounting Standards**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance was issued that outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU 2014-09 is effective for fiscal years beginning after December 15, 2017. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018. Early application is permitted for all entities for fiscal years beginning after December 15, 2016. The University is assessing the impact this new standard will have on its financial statements.

In January 2016, FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new guidance is intended to improve the recognition and measurement of financial instruments and eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for institutions that are not public business entities. For non-public business entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for fiscal years beginning after December 15, 2017. However, the new guidance permits entities that are not public business entities to adopt upon issuance the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The University elected to adopt this provision in fiscal 2016. ASU 2016-01 is to be applied by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. The University is assessing the impact the remainder of this standard will have on its financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases*. ASU 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. For public business entities, including not-for-profit organizations that have issued, or are a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019. Early application is permitted for all entities. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The University is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The University is assessing the impact this standard will have on its financial statements.

### Subsequent Events

The University evaluated subsequent events for recognition or disclosure through October 18, 2016, the date the financial statements were issued.

### 3. Pledges Receivable

Included in pledges receivable are the following unconditional promises at June 30:

|   | 2016         | 2015         |
|---|--------------|--------------|
| Unconditional promises expected within 1 year   | \$ 770,000   | \$ 786,000   |
| Unconditional promises expected between 1-5 years   | 2,204,000    | 2,388,000    |
| Unconditional promises expected in greater than 5 years   | -            | 500,000      |
| Total unconditional promises  | 2,974,000    | 3,674,000    |
| Less:   |              |              |
| Discount  | 175,000      | 259,000      |
| Allowance for uncollectible accounts  | 149,000      | 21,000       |
| Total discount and allowance  | 324,000      | 280,000      |
| Unconditional promises to give, net of unamortized discount and allowance for uncollectible amounts | \$ 2,650,000 | \$ 3,394,000 |

**4. Fair Value Measurements, Investments, and Other Financial Instruments**

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the University for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

The following tables present the financial instruments measured at fair value as of June 30, 2016 and 2015 by caption on the statement of financial position by the valuation hierarchy defined above:

|  | 2016          |               |         |                  |
|--|---------------|---------------|---------|------------------|
|  | Level 1       | Level 2       | Level 3 | Total Fair Value |
| <b>Reported at Fair Value</b>                      |               |               |         |                  |
| Assets:  |               |               |         |                  |
| Investments:                                       |               |               |         |                  |
| Money market funds                                 | \$ 11,000     | \$ -          | \$ -    | \$ 11,000        |
| Balanced index mutual funds                        | 22,000        | -             | -       | 22,000           |
| Bond index mutual funds                            | 150,000       | -             | -       | 150,000          |
| Mercy investment services multi asset mutual funds | -             | 29,330,000    | -       | 29,330,000       |
| Other  | 50,000        | -             | -       | 50,000           |
| Total investments                                  | 233,000       | 29,330,000    | -       | 29,563,000       |
| Deposits with trustees                             | 4,191,000     | -             | -       | 4,191,000        |
| Total  | \$ 4,424,000  | \$ 29,330,000 | \$ -    | \$ 33,754,000    |
| <b>Disclosed at Fair Value</b>                     |               |               |         |                  |
| Cash and cash equivalents                          | \$ 12,404,000 | \$ -          | \$ -    | \$ 12,404,000    |
| Restricted cash                                    | 73,000        | -             | -       | 73,000           |

# Gwynedd Mercy University

Notes to Financial Statements  
June 30, 2016 and 2015

| 2015   |              |               |         |                  |
|--|--------------|---------------|---------|------------------|
|  | Level 1      | Level 2       | Level 3 | Total Fair Value |
| <b>Reported at Fair Value</b>                      |              |               |         |                  |
| Assets:  |              |               |         |                  |
| Investments:                                       |              |               |         |                  |
| Money market funds                                 | \$ 11,000    | \$ -          | \$ -    | \$ 11,000        |
| Balanced index mutual funds                        | 21,000       | -             | -       | 21,000           |
| Bond index mutual funds                            | 135,000      | -             | -       | 135,000          |
| Mercy investment services multi asset mutual funds | -            | 28,895,000    | -       | 28,895,000       |
| Other  | 50,000       | -             | -       | 50,000           |
| Total investments                                  | 217,000      | 28,895,000    | -       | 29,112,000       |
| Deposits with trustees                             | 4,183,000    | -             | -       | 4,183,000        |
| Total  | \$ 4,400,000 | \$ 28,895,000 | \$ -    | \$ 33,295,000    |

## Disclosed at Fair Value

|                           |               |      |      |               |
|---------------------------|---------------|------|------|---------------|
| Cash and cash equivalents | \$ 11,284,000 | \$ - | \$ - | \$ 11,284,000 |
| Restricted cash           | 244,000       | -    | -    | 244,000       |

## Valuation Methodologies

The carrying amounts of money market funds, deposits with bond trustees, cash and cash equivalents, and restricted cash are reasonable estimates of their fair values due to the short-term nature of these financial instruments. These are considered Level 1 measurements due to their liquidity. Equity and fixed income mutual funds and other investments are measured at fair value using quoted market prices for identical assets, which are considered Level 1 inputs.

Mercy investment services multi asset mutual funds are measured at fair value using pricing for similar assets with similar terms in actively traded markets, which are considered Level 2 inputs.

Investment income consists of the following:

|                                       | 2016       | 2015       |
|---------------------------------------|------------|------------|
| Dividends and interest                | \$ 715,000 | \$ 717,000 |
| Unrealized (loss) gain on investments | (593,000)  | (247,000)  |
| Realized gain on investments          | 87,000     | 169,000    |
| Investment fees                       | (164,000)  | (141,000)  |
| Total investment income               | \$ 45,000  | \$ 498,000 |

## Gwynedd Mercy University

Notes to Financial Statements  
June 30, 2016 and 2015

### 5. Fixed Assets

Fixed assets consist of the following:

|                                      | <b>2016</b>          | <b>2015</b>          |
|--------------------------------------|----------------------|----------------------|
| Building and improvements            | \$ 83,023,000        | \$ 81,295,000        |
| Furniture, furnishings and equipment | 6,544,000            | 9,992,000            |
| Library collections                  | 2,117,000            | 2,117,000            |
| Land and land improvements           | 4,085,000            | 3,982,000            |
| Construction in progress             | 71,000               | 384,000              |
| Total fixed assets                   | 95,840,000           | 97,770,000           |
| Less: accumulated depreciation       | (42,415,000)         | (43,271,000)         |
| Total fixed assets, net              | <u>\$ 53,425,000</u> | <u>\$ 54,499,000</u> |

Depreciation expense was \$2,746,000 and \$2,782,000 for the years ended June 30, 2016 and 2015, respectively.

### 6. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2016 and 2015:

|   | <b>2016</b>         | <b>2015</b>         |
|---|---------------------|---------------------|
| Long lived assets, net of depreciation  | \$ 2,200,000        | \$ 2,421,000        |
| Student support                         | 427,000             | 517,000             |
| Instruction and academic support        | 3,923,000           | 4,102,000           |
| Scholarships                            | 2,031,000           | 1,901,000           |
| Annual fund                             | 94,000              | 95,000              |
| Total temporarily restricted net assets | <u>\$ 8,675,000</u> | <u>\$ 9,036,000</u> |

**7. Satisfaction of Restriction**

Temporarily restricted net assets were released from donor restriction by incurring expenses satisfying the restricted purpose or by occurrences of other events specified by donors as follows:

|  | <u>2016</u>         | <u>2015</u>         |
|--|---------------------|---------------------|
| Purpose Restriction Accomplished,<br>Educational and general     | \$ 2,338,000        | \$ 2,578,000        |
| Time Restriction Satisfied:<br>Depreciation of long lived assets | <u>221,000</u>      | <u>221,000</u>      |
| Total satisfaction of restrictions                               | <u>\$ 2,559,000</u> | <u>\$ 2,799,000</u> |

**8. Endowments**

The Board of Trustees has interpreted the Commonwealth of Pennsylvania state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) enhancements or diminishments of the fund from investment income, loss and spending allowance.

The University's endowment funds include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments (board designated funds). As required by accounting standards, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Return Objectives and Risk Parameters**

The University has adopted investment and spending policies for endowment and board designated assets that attempt to provide a relatively predictable and growing stream of annual distributions in support of the institution while preserving the long-term, real purchasing power of assets.

**Spending Policy and How the Investment Objectives Related to Spending Policy**

The University has a total return policy of appropriating for distribution each year a percentage of its endowment fund's average fair value over the prior three fiscal year ends. This percentage was 7% for 2016 and 2015 and amounted to \$839,000 for 2016 and \$750,000 for 2015. The income on the permanently restricted assets is used in accordance with donor stipulations as described above.



**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University's current assets allocation for both donor restricted and board designated endowment funds is structured to achieve the appropriate level of investment return.

The University's endowment and board designated endowment had the following activity for the years ended June 30, 2016 and 2015.

|   | <b>2016</b>                 |                                   |               |
|---|-----------------------------|-----------------------------------|---------------|
|   | <b>Board<br/>Designated</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b>  |
| Endowment net assets, beginning of year | \$ 16,821,000               | \$ 12,074,000                     | \$ 28,895,000 |
| Investment gain                         | 5,000                       | 5,000                             | 10,000        |
| Transfer from undesignated fund         | 1,133,000                   | -                                 | 1,133,000     |
| Contributions                           | -                           | 131,000                           | 131,000       |
| Spending allowance                      | -                           | (839,000)                         | (839,000)     |
| Changes in net assets                   | 1,138,000                   | (703,000)                         | 435,000       |
| Endowment net assets, end of year       | \$ 17,959,000               | \$ 11,371,000                     | \$ 29,330,000 |
|   | <b>2015</b>                 |                                   |               |
|   | <b>Board<br/>Designated</b> | <b>Permanently<br/>Restricted</b> | <b>Total</b>  |
| Endowment net assets, beginning of year | \$ 13,220,000               | \$ 12,510,000                     | \$ 25,730,000 |
| Investment gain                         | 131,000                     | 214,000                           | 345,000       |
| Transfer from undesignated fund         | 3,470,000                   | -                                 | 3,470,000     |
| Contributions                           | -                           | 100,000                           | 100,000       |
| Spending allowance                      | -                           | (750,000)                         | (750,000)     |
| Changes in net assets                   | 3,601,000                   | (436,000)                         | 3,165,000     |
| Endowment net assets, end of year       | \$ 16,821,000               | \$ 12,074,000                     | \$ 28,895,000 |

## Gwynedd Mercy University

### Notes to Financial Statements

June 30, 2016 and 2015

Endowment and board designated net assets had the following net asset compositions as June 30, 2016 and 2015.

|  | 2016                 |                        |                      |
|--|----------------------|------------------------|----------------------|
|  | Board Designated     | Permanently Restricted | Total                |
| Board designated endowment funds, Operations                         | \$ 17,959,000        | \$ -                   | \$ 17,959,000        |
| Donor restricted endowment funds, Scholarships and School of Nursing | -                    | 11,371,000             | 11,371,000           |
| Endowment net assets, end of year                                    | <u>\$ 17,959,000</u> | <u>\$ 11,371,000</u>   | <u>\$ 29,330,000</u> |
| 2015   |                      |                        |                      |
| Board designated endowment funds, Operations                         | \$ 16,821,000        | \$ -                   | \$ 16,821,000        |
| Donor restricted endowment funds, Scholarships and School of Nursing | -                    | 12,074,000             | 12,074,000           |
| Endowment net assets, end of year                                    | <u>\$ 16,821,000</u> | <u>\$ 12,074,000</u>   | <u>\$ 28,895,000</u> |

## 9. Bonds Payable

|   | 2016                 | 2015                 |
|---|----------------------|----------------------|
| Bond Issue - 2007 (series GG5 and PI)<br>The University borrowed \$40,280,000 in 2007 through bonds issued by the Pennsylvania Higher Educational Facilities Authority. The interest rate on the bonds varies between 0.05% and 5.13%. The bonds are due at various dates through 2037.                                       | 32,645,000           | 33,600,000           |
| Bond Issue - 2012<br>The University borrowed \$10,000,000 in 2012 through bonds issued by the Pennsylvania Higher Educational Facilities Authority in connection with financing of the new academic building. The interest rate on the bonds is 5.375%. The bonds are due at various dates starting in May 2038 through 2042. | 10,000,000           | 10,000,000           |
| Total bonds payable   | 42,645,000           | 43,600,000           |
| Less bond issuance costs  | (1,059,000)          | (1,111,000)          |
| Less current portion  | (995,000)            | (955,000)            |
| Total bonds payable - long-term debt  | <u>\$ 40,591,000</u> | <u>\$ 41,534,000</u> |

## Gwynedd Mercy University

### Notes to Financial Statements

June 30, 2016 and 2015

Future minimum principal payments are as follows:

|            |                      |
|------------|----------------------|
| 2017       | \$ 995,000           |
| 2018       | 1,040,000            |
| 2019       | 1,085,000            |
| 2020       | 1,130,000            |
| 2021       | 1,175,000            |
| Thereafter | <u>37,220,000</u>    |
|            | <u>\$ 42,645,000</u> |

The Pennsylvania Higher Educational Facilities Authority bonds provide for the University to pledge certain revenues as collateral. The Series 2007 PI Bonds are secured by an irrevocable letter of credit expiring on May 15, 2018.

Interest expense on long-term debt was \$1,243,000 in 2016 and \$1,243,000 in 2015. No interest expense was capitalized for the fiscal year ended June 30, 2016 and 2015.

## 10. Operating Lease

The University entered into various non-cancelable leases for classroom and administrative space and office equipment. The leases qualify as operating leases and payments are charged to expense as they are incurred.

Future minimum lease payments subsequent to June 30, 2016 under existing leases are as follows:

|            | <u>Equipment</u>  | <u>Classroom and<br/>Administrative<br/>Space</u> | <u>Total</u>         |
|------------|-------------------|---|----------------------|
| 2017       | \$ 106,000        | \$ 1,885,000                                      | \$ 1,991,000         |
| 2018       | 85,000            | 1,930,000   | 2,015,000            |
| 2019       | 60,000            | 1,977,000   | 2,037,000            |
| 2020       | 28,000            | 2,024,000   | 2,052,000            |
| 2021       | 15,000            | 1,547,000   | 1,562,000            |
| Thereafter | -                 | 1,432,000   | 1,432,000            |
| Total      | <u>\$ 294,000</u> | <u>\$ 10,795,000</u>                              | <u>\$ 11,089,000</u> |

Lease expense was \$2,000,000 and \$2,542,000 for the years ended June 30, 2016 and 2015, respectively.

**11. Institutional Advancement Expenses**

The University incurred expenses amounting to \$1,015,000 and \$963,000 during the years ended June 30, 2016 and 2015, respectively, related to development and fundraising. These amounts are included in institutional support in the accompanying Statements of Activities.

**12. Pension Plans**

The University has voluntary defined contribution pension plans which cover substantially all full time employees. The University makes matching contributions of an amount not to exceed 5% of the employees' gross salaries for the years ended June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, total pension expense under this plan was approximately \$545,000 and \$533,000, respectively.

**13. Functional Classification of Expenses**

The costs of providing program services and supporting services of the University have been summarized on a functional basis in the following schedule. Costs for plant operations and maintenance, depreciation, interest and employee benefits have been allocated among the functional categories.

|                                 | <u>2016</u>          | <u>2015</u>          |
|---------------------------------|----------------------|----------------------|
| Program expenses                | \$ 31,918,000        | \$ 29,611,000        |
| Management and general expenses | 10,123,000           | 9,650,000            |
| Development                     | 1,015,000            | 963,000              |
| Auxiliary enterprises           | <u>4,584,000</u>     | <u>4,463,000</u>     |
| Total                           | <u>\$ 47,640,000</u> | <u>\$ 44,687,000</u> |

## APPENDIX C

### INFORMATION REGARDING THE BANK

[ THIS PAGE INTENTIONALLY LEFT BLANK ]

## APPENDIX C

### CERTAIN INFORMATION REGARDING THE BANK

TD Bank, N.A. (the "Bank") is a national banking association organized under the laws of the United States, with its main office located in Wilmington, Delaware. The Bank is an indirect, wholly-owned subsidiary of The Toronto-Dominion Bank ("TD") and offers a full range of banking services and products to individuals, businesses and governments throughout its market areas, including commercial, consumer and trust services and indirect automobile dealer financing. The Bank operates banking offices in Connecticut, Delaware, the District of Columbia, Florida, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, North Carolina, New York, Pennsylvania, Rhode Island, South Carolina, Vermont and Virginia. As of December 31, 2016, the Bank had consolidated assets of \$269.0 billion, consolidated deposits of \$228.9 billion and stockholder's equity of \$34.5 billion, based on regulatory accounting principles.

Additional information regarding the foregoing, and the Bank and TD, is available from the filings made by TD with the U.S. Securities and Exchange Commission (the "SEC"), which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning TD and the Bank contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Letter of Credit has been issued by the Bank and is the obligation of the Bank and not TD.

The Bank will provide copies of the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

TD Bank, N.A.  
1701 Route 70 East  
Cherry Hill, New Jersey 08034  
Attn: Corporate and Public Affairs

Information regarding the financial condition and results of operations of the Bank is contained in the quarterly Call Reports of the Bank delivered to the Comptroller of the Currency and available online at <https://cdr.ffiec.gov/public>. General information regarding the Bank may be found in periodic filings made by TD with the SEC. TD is a foreign issuer that is permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare certain filings with the SEC in accordance with the disclosure requirements of Canada, its home country. Canadian disclosure requirements are different from those of the United States. TD's financial statements are prepared in accordance with International Financial Reporting Standards, and may be subject to Canadian auditing and auditor independence standards, and thus may not be comparable to financial statements of United States companies prepared in accordance with United States generally accepted accounting principles.

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

NEITHER TD NOR ANY OTHER SUBSIDIARY OF TD OTHER THAN THE BANK IS OBLIGATED TO MAKE PAYMENTS UNDER THE LOC.

The Bank is responsible only for the information contained in this section of the Official Statement and did not participate in the preparation of, or in any way verify the information contained in, any other part of the Official Statement. Accordingly, the Bank assumes no responsibility for and makes no representation or warranty as to the accuracy or completeness of information contained in any other part of the Official Statement.



## APPENDIX D

### FORM OF CONTINUING DISCLOSURE AGREEMENT

[ THIS PAGE INTENTIONALLY LEFT BLANK ]

## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is made and entered into as of May 1, 2017, by and between GWYNEDD MERCY UNIVERSITY, a Pennsylvania nonprofit corporation (the "Borrower"), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association, in connection with the issuance by the Montgomery County Higher Education and Health Authority (the "Issuer") of its \$19,000,000 Variable Rate Revenue Bonds (AICUP Financing Program – Gwynedd Mercy University Project) Series 2017 V1 (the "Bonds"). The Bonds are being issued pursuant to the terms of a Trust Indenture dated as of May 1, 2017 (the "Indenture") from the Issuer to The Bank of New York Mellon Trust Company, N.A., in its capacity as trustee for the holders of the Bonds (in such capacity, together with any successor trustee, the "Trustee").

NOW THEREFORE, intending to be legally bound hereby, the parties hereto hereby covenant and agree as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered for the benefit of the registered owners and Beneficial Owners (hereinafter defined) of the Bonds and in order to assist the Participating Underwriter (hereinafter defined) in complying with the Rule (hereinafter defined).

**SECTION 2. Definitions.** In addition to the capitalized terms defined above and the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Borrower pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which the New York Stock Exchange is closed.

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

"Commonwealth" shall mean the Commonwealth of Pennsylvania.

"Disclosure Representative" shall mean the President of the Borrower or his or her designee, or such other person as the Borrower shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean The Bank of New York Mellon Trust Company, N.A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Borrower and which has filed with its predecessor Dissemination Agent a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access System maintained by the MSRB.

"Generally Accepted Accounting Principles" means those accounting principles applicable in the preparation of financial statements of educational institutions, as promulgated by the Financial Accounting

Standards Board or such other body recognized as authoritative by the American Institute of Certified Public Accountants or any successor body.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"Loan Agreement" shall mean the Loan Agreement, dated as of May 1, 2017, between the Borrower and the Issuer.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Official Statement" means the Official Statement relating to the Bonds, dated April 27, 2017.

"Participating Underwriter" shall mean George K. Baum & Company, as the underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean each nationally recognized municipal securities information repository for purposes of the Rule. The Securities and Exchange Commission has appointed EMMA as the sole Repository effective as of July 1, 2009.

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

### **SECTION 3. Provisions of Annual Reports.**

(a) The Borrower shall deliver, or shall provide to the Dissemination Agent and shall cause the Dissemination Agent to deliver, to each Repository, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement, not later than 60 days following approval by the Board of Trustees of the Borrower of its audited financial statements related to the end of each fiscal year of the Borrower (presently ending June 30), commencing with the fiscal year ending June 30, 2017, and in no case shall such Annual Report be delivered to each Repository later than nine months following the last day of each fiscal year. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the financial statements of the Borrower may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report, if submitted in accordance with the provisions of Section 4. If the fiscal year of the Borrower changes, the Borrower shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) If the Dissemination Agent receives the Annual Report from the Borrower and delivers the Annual Report to the Repository, the Dissemination Agent shall file a report with the Issuer and, if the Dissemination Agent is not the Trustee, with the Trustee (with a copy to the Borrower) to the effect that the Annual Report has been so delivered pursuant to this Disclosure Agreement and stating the date it was delivered. If the Borrower delivers the Annual Report directly to the Repository, it shall provide a report to the same effect to the Issuer, the Dissemination Agent and, if the Dissemination Agent is not the Trustee, to the Trustee.

(c) If the Borrower fails either to (i) provide the Annual Report to the Dissemination Agent in a time, manner and condition sufficient for the Dissemination Agent to deliver the Annual Report in compliance with Section 3(a), or (ii) report to the Dissemination Agent that it has on its own so delivered the Annual Report, the Dissemination Agent shall send

a notice to the Repository (and copies thereof to the Issuer and the Borrower) in substantially the form attached hereto as Exhibit A.

**SECTION 4. Content of Annual Reports.** The Annual Reports shall contain or include by reference the following:

(a) The financial statements of the Borrower for the prior fiscal year prepared in accordance with Generally Accepted Accounting Principles. If such financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain preliminary financial statements in a format similar to the financial statements contained in the Official Statement, and the final financial statements shall be filed in the same manner as the Annual Report when they become available, but no later than nine months following the last day of the Borrower's prior fiscal year.

(b) Operating data and financial information regarding the Borrower for the prior fiscal year of the same type as included in Appendix A to the Official Statement under the headings "Total College Enrollment," "Demand and Enrollment," and "Student Fees".

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

**SECTION 5. Reporting of Significant Events.**

(a) Pursuant to the provisions of this Section 5, the Borrower shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds (each, a "Listed Event") in a timely manner not in excess of ten business days after the occurrence of the Listed Event:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

- (vii) modifications to rights of registered owners and Beneficial Owners, if material;
- (viii) bond calls (other than mandatory sinking fund redemption), if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the Borrower;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Borrower obtains knowledge of the occurrence of a Listed Event, the Borrower shall promptly prepare a notice describing the Listed Event and notify the Dissemination Agent, if any, and the Issuer in writing, and either report or instruct the Dissemination Agent to report, the occurrence to the Repository, or to the MSRB. Promptly upon receipt of such notice, the Dissemination Agent shall file it with the Repository, or with the MSRB, as instructed in writing by the Borrower, with a copy to the Issuer and, if the Dissemination Agent is not the Trustee, with the Trustee.

**SECTION 6. Termination of Reporting Obligation.** The Borrower's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the Borrower's obligations under the Loan 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 Borrower and the Borrower shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Borrower shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 5.

**SECTION 7. Dissemination Agent.** The initial Dissemination Agent shall be The Bank of New York Mellon Trust Company, N.A. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report, including, without limitation, any Annual Report, prepared by the Borrower pursuant to this Disclosure Agreement. The Borrower may, from time to time, appoint or engage a new Dissemination Agent, and may discharge any such Dissemination Agent, upon the appointment of a successor Dissemination Agent which shall be evidenced and be effective upon such successor Dissemination Agent's execution and delivery to the Issuer and the existing Dissemination Agent of a Form of Acceptance of Dissemination Agent's Duties substantially in the form attached hereto as Exhibit B. The Borrower shall be responsible for all fees and associated expenses of the Dissemination Agent.

**SECTION 8. The Issuer.** The Issuer shall not have any responsibility or liability in connection with the Borrower's compliance with the Rule, its filing or other obligations under this Disclosure Agreement, or in connection with the contents of any such filings. The Borrower covenants and agrees to indemnify and save the Issuer, and its members, officers, employees and agents, harmless against any loss, expense (including reasonable attorneys' fees) or liability arising out of (i) any breach by the Borrower of its obligations under this Disclosure Agreement, or (ii) any Annual Report or notices or other information provided under this Disclosure Agreement or any omissions therefrom.

**SECTION 9. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the Borrower and the Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, provided that no amendment shall subject the Issuer to any additional obligations or liabilities, and, provided further, that unless otherwise permitted by the Rule, the following conditions are satisfied:

(a) The amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds (including, but not limited to, affiliations, mergers, acquisitions, divestitures or dispositions affecting the Borrower), or the type of business conducted;

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

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

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Borrower shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borrower. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**SECTION 10. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Borrower 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 Borrower shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**SECTION 11. Default.** In the event of a failure of the Borrower to comply with any provision of this Disclosure Agreement, the Issuer or the Dissemination Agent may, or at the written request of the Participating Underwriter or the registered owners of at least 25 % of the aggregate principal amount of outstanding Bonds and the provision of indemnification satisfactory to it, the Dissemination Agent shall, or any registered owner or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Borrower to comply with this Disclosure Agreement shall be an action to compel performance.

**SECTION 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.** Article X of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and applicable to the Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and no further duties or responsibilities shall be implied. The Dissemination Agent shall not have any liability under, nor duty to inquire into the terms and provisions of, any agreement or instructions, other than as outlined in this Disclosure Agreement. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any written notice, instruction or request furnished to it hereunder and believed by it to be genuine and to have been signed or presented by the proper party or parties. The Dissemination Agent shall be under no duty to inquire into or investigate the validity, accuracy or content of any such document. The Dissemination Agent shall not be liable for any action taken or omitted by it in good faith unless a court of competent jurisdiction determines that the Dissemination Agent's negligent or willful misconduct was the primary cause of any loss to the Borrower. The Dissemination Agent shall not incur any liability for following the instructions herein contained or expressly provided for, or written instructions given by the Borrower. In the administration of this Disclosure Agreement, the Dissemination Agent may execute any of its powers and perform its duties hereunder directly or through agents or attorneys and may consult with counsel, accountants and other skilled persons to be selected and retained by it. The Dissemination Agent shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion of any such counsel, accountants or other skilled persons. The Dissemination Agent may resign and be discharged from its duties or obligations hereunder by giving notice in writing of such resignation specifying a date when such resignation shall take effect. Any corporation or association into which the Dissemination Agent in its individual capacity may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, conversion or consolidation to which the Dissemination Agent in its individual capacity shall be a party, or any corporation or association to which all or substantially all the corporate trust business of the Dissemination Agent in its individual capacity may be sold or otherwise transferred, shall be the Dissemination Agent under this Disclosure Agreement without further act. The Borrower covenants and agrees to hold the Dissemination Agent and its directors, officers, agents and employees (collectively, the "Indemnitees") harmless from and against any and all liabilities, losses, damages, fines, suits, actions, demands, penalties, costs and expenses, including out-of-pocket, incidental expenses, legal fees and expenses, the allocated costs and expenses of in-house counsel and legal staff and the costs and expenses of defending or preparing to defend against any claim ("Losses") that may be imposed on, incurred by, or asserted against, the Indemnitees or any of them for following any instruction or other direction upon which the Dissemination Agent is authorized to rely pursuant to the terms of this Disclosure Agreement. In addition to and not in limitation of the immediately preceding sentence, the Borrower also covenants and agrees to indemnify and hold the Indemnitees and each of them harmless from and against any and all Losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Dissemination Agent's performance under this Disclosure Agreement provided the Dissemination Agent has not acted with gross negligence or engaged in willful misconduct. Anything in this Disclosure Agreement to the contrary notwithstanding, in no event



shall the Dissemination Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Dissemination Agent has been advised of such loss or damage and regardless of the form of action. The obligations of the Borrower under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

**SECTION 13. Notices.** Any notices or communications to or between the parties to this Disclosure Agreement shall be deemed sufficiently given if sent by registered or certified United States mail, return receipt requested, postage prepaid, by overnight delivery service providing positive tracking or by telecopier with a duplicate hard copy sent by overnight delivery service providing positive tracking as follows:

To the Borrower:

Gwynedd Mercy University  
P.O. Box 901  
1325 Sumneytown Pike  
Gwynedd Valley, PA 19437-0901  
Attention: Kevin O'Flaherty  
Vice President for Finance and Administration  
Telecopier Number: 215-641-5542

To the Dissemination Agent:

The Bank of New York Mellon Trust Company, N.A.  
Global Corporate Trust  
1735 Market Street, 9th Floor AIM No. 193-0950  
Philadelphia, PA 19103  
Attention: Noreen Wichert  
Telecopier Number: 215-553-6915/6919

To the Issuer:

Montgomery County Higher Education and Health Authority  
1800 East High Street, Suite 250  
Pottstown, PA 19464  
Attention: Chairperson  
Telecopier Number: 610-970-5016

Any party may, by written notice to the other parties, designate a different address or telecopier number to which subsequent notices or communications should be sent.

**SECTION 14. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the Borrower, the Dissemination Agent, the Issuer, the Participating Underwriter, and registered owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

**SECTION 15. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which will be regarded as an original, and all of which will constitute one and the same document.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement on the date first above written.

GWYNEDD MERCY UNIVERSITY

By: \_\_\_\_\_  
Title: Vice President for Finance  
and Administration

THE BANK OF NEW YORK MELLON  
TRUST COMPANY, N.A.,  
as Dissemination Agent

By: \_\_\_\_\_  
Title: Authorized Signatory

This execution page is part of the Continuing Disclosure Agreement between Gwynedd Mercy University and The Bank of New York Mellon Trust Company, N.A., respecting the Montgomery County Higher Education and Health Authority Variable Rate Revenue Bonds (AICUP Financing Program Gwynedd Mercy University Project) Series 2017 V1.

## **EXHIBIT A**

### **NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Montgomery County Higher Education and Health Authority

Name of Bond Issue: \$19,000,000 Variable Rate Revenue Bonds (AICUP Financing Program Gwynedd Mercy University Project) Series 2017 V1

CUSIP:

Date of Issuance: May 1, 2017

NOTICE IS HEREBY GIVEN that Gwynedd Mercy University has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated as of May 1, 2017.

Dated: \_\_\_\_\_

cc: Gwynedd Mercy University  
Montgomery County Higher Education and Health Authority

## **EXHIBIT B**

### **FORM OF ACCEPTANCE OF DISSEMINATION AGENT'S DUTIES**

\_\_\_\_\_ hereby accepts and assumes all of the duties and obligations as Dissemination Agent under that certain Continuing Disclosure Agreement, dated as of May 1, 2017, by and between Gwynedd Mercy University and The Bank of New York Mellon Trust Company, N.A., relating to the Montgomery County Higher Education and Health Authority Variable Rate Revenue Bonds (AICUP Financing Program Gwynedd Mercy University Project) Series 2017 V1.

[NAME OF SUCCESSOR  
DISSEMINATION AGENT]

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

cc: Montgomery County Higher Education and Health Authority  
Gwynedd Mercy University

## APPENDIX E

### FORM OF PROPOSED OPINION OF BOND COUNSEL

[ THIS PAGE INTENTIONALLY LEFT BLANK ]

PROPOSED FORM OF OPINION OF BOND COUNSEL

May 1, 2017

Montgomery County Higher Education and  
Health Authority  
1800 East High Street, Suite 250  
Pottstown, PA 19464

The Bank of New York Mellon Trust Company,  
N.A., as Trustee  
1735 Market Street – 9<sup>th</sup> Floor  
Philadelphia, PA 19103

George K. Baum & Company  
651 Holiday Drive, Suite 110  
Pittsburgh, PA 15220

TD Bank, N.A.  
100 East DeKalb Pike, 2<sup>nd</sup> Floor  
King of Prussia, PA 19406

Re: \$19,000,000 Montgomery County Higher Education and Health Authority  
Variable Rate Revenue Bonds (AICUP Financing Program – Gwynedd Mercy University  
Project), Series 2017 V1

---

Ladies and Gentlemen:

We have acted as Bond Counsel to the Montgomery County Higher Education and Health Authority (the “Issuer”) in connection with the issuance of \$19,000,000 aggregate principal amount of its Variable Rate Revenue Bonds (AICUP Financing Program – Gwynedd Mercy University Project), Series 2017 V1 (the “Bonds”). The Bonds are issued under and pursuant to the provisions of the Pennsylvania Municipality Authorities Act, PA.C.S.A. §5601 *et seq.*, as amended (the “Act”) and a Trust Indenture (the “Indenture”), dated as of April 1, 2017 between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”).

The Bonds are being issued pursuant to a financing program sponsored by the Association of Independent Colleges and Universities of Pennsylvania to provide funds to be loaned to Gwynedd Mercy University (the “University”) to finance certain costs of a project (the “Project”) consisting of: (i) the current refunding of the Pennsylvania Higher Educational Facilities Authority Revenue Bonds (Association of Independent Colleges and Universities of Pennsylvania Financing Program – Gwynedd-Mercy College Project) Series 2007 P1, the proceeds of which were used to advance refund certain bonds previously issued for the benefit of the University and to finance capital projects; (ii) financing miscellaneous capital expenditures on the University’s campus; and (iii) the payment of the costs of issuing the Bonds.

The Issuer and the University have entered into a Loan Agreement dated as of April 1, 2017 (the “Loan Agreement”) providing for the loan of the proceeds of the Bonds to the University to pay certain costs of the Project. Under the Loan Agreement, the University is unconditionally obligated to make loan payments in the amounts and at the times necessary to pay, when due, the principal or redemption price of and interest on the Bonds. The Issuer has assigned

certain of its interests under the Loan Agreement, including its right to receive payments thereunder in respect of the Bonds, to the Trustee for the benefit of the holders of the Bonds.

The University has represented in the Loan Agreement that it is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), is not a “private foundation” within the meaning of Section 509(a) of the Code, and is exempt from federal income tax under Section 501(a) of the Code. The University has covenanted that it will maintain its status as a 501(c)(3) organization under the Code and will take whatever actions are necessary to continue to be organized and operated in a manner which will preserve and maintain its status as an organization which is described in Section 501(c)(3) of the Code and exempt from federal income taxes under Section 501(a) of the Code (except as to unrelated business income).

The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for interest thereon to remain excludable from the gross income of the owners of the Bonds for federal income tax purposes. The Issuer and the University have covenanted to comply with such requirements. Noncompliance with such requirements may cause the interest on the Bonds to be includible in the gross income of the owners of the Bonds for federal income tax purposes, retroactive to the date of issue of the Bonds or as of some later date. Under the Loan Agreement, the University has covenanted that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103(a) of the Code. For the purposes of the opinions set forth below, we have assumed that the Issuer and the University will comply with the covenants set forth in the Loan Agreement relating to the tax-exempt status of the Bonds.

An officer of the Issuer responsible for issuing the Bonds and an authorized officer of the University have each executed a certificate stating the reasonable expectations of the Issuer and the University on the date of issue of the Bonds as to future events that are material for the purposes of Section 148 of the Code pertaining to arbitrage bonds. Also, the Issuer has caused or will cause to be filed with the Internal Revenue Service a report of the issuance of the Bonds as required by Section 149(e) of the Code as a condition of the exclusion from gross income of the interest on the Bonds.

In our capacity as Bond Counsel we have examined such documents, records of the Issuer and other instruments as we deemed necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Indenture, the Loan Agreement and the other documents listed in the Closing Index in respect of the Bonds filed with the Trustee. We also have examined an executed Bond and assume that all other Bonds have been similarly executed and have been authenticated by the Trustee.

Based on the foregoing, it is our opinion that:

1. The Issuer is a body corporate and politic validly existing under the laws of the Commonwealth of Pennsylvania, with full power and authority under the Act to undertake the financing of the Project, to execute, deliver and perform its obligations under the Loan Agreement and the Indenture, and to issue and sell the Bonds.
2. The Loan Agreement and the Indenture have been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the other



parties thereto, constitute legal, valid and binding obligations of the Issuer enforceable in accordance with their respective terms, except as the rights created thereunder and the enforcement thereof may be limited by bankruptcy, insolvency or other laws or equitable principles affecting the enforcement of creditors' rights generally.

3. The issuance and sale of the Bonds have been duly authorized by the Issuer and, on the assumption as to execution and authentication stated above, such Bonds have been duly executed and delivered by the Issuer and authenticated by the Trustee, and are legal, valid and binding limited obligations of the Issuer entitled to the benefit and security of the Indenture, except as the rights created thereunder and enforcement thereof may be limited by bankruptcy, insolvency or other laws or equitable principles affecting the enforcement of creditors' rights generally.

4. Under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania, and interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

5. Assuming the accuracy of the certifications of the Issuer and the University and their continuing compliance with the requirements of the Code, interest on the Bonds is excludable from gross income for purposes of federal income taxation under existing laws as enacted and construed on the date hereof. Interest on the Bonds is not an item of specific tax preference for purposes of either individual or corporate federal alternative minimum tax; however, interest on Bonds held by a corporation (other than an S corporation, regulated investment company or real estate investment trust) may be indirectly subject to corporate federal alternative minimum tax because of its inclusion in the adjusted current earnings of the corporate holder. We express no opinion regarding other federal tax consequences relating to ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

We have not been engaged to express and do not express any opinion herein with respect to the adequacy of the security for the Bonds or the sources of payment for the Bonds or with respect to the accuracy or completeness of any offering document or other information pertaining to the offering for sale of the Bonds or as to any other matter not set forth herein.

We call your attention to the fact that the Bonds are limited obligations of the Issuer payable only out of payments to be made by the University pursuant to the Loan Agreement and certain other moneys available therefor, and that the Bonds do not pledge the credit or taxing power of the County of Montgomery, the Commonwealth of Pennsylvania or any political subdivision thereof. The Issuer has no taxing power.

Very truly yours,

[ THIS PAGE INTENTIONALLY LEFT BLANK ]

## THE ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES OF PENNSYLVANIA\*

|   |  |
|---|--|
| Albright College                                | Lehigh University                            |
| Allegheny College                               | Lycoming College                             |
| Alvernia College                                | Manor College                                |
| Arcadia University                              | Marywood University                          |
| Bryn Athyn College of the New Church            | Mercyhurst University                        |
| Bryn Mawr College                               | Messiah College                              |
| Bucknell University                             | Misericordia University                      |
| Cabrini College                                 | Moore College of Art & Design                |
| Cairn University                                | Moravian College                             |
| Carlow University                               | Mount Aloysius College                       |
| Carnegie Mellon University                      | Muhlenberg College                           |
| Cedar Crest College                             | Neumann University                           |
| Chatham University                              | Peirce College                               |
| Chestnut Hill College                           | Pennsylvania College of Art & Design         |
| Clarks Summit University                        | Pennsylvania College of Health Sciences      |
| Delaware Valley University                      | Pennsylvania Institute of Technology         |
| DeSales University                              | Philadelphia College of Osteopathic Medicine |
| Dickinson College                               | Philadelphia University                      |
| Drexel University                               | Point Park University                        |
| Duquesne University                             | Robert Morris University                     |
| Eastern University                              | Rosemont College                             |
| Elizabethtown College                           | Saint Francis University                     |
| Franklin & Marshall College                     | Saint Joseph's University                    |
| Gannon University                               | Saint Vincent College                        |
| Geisinger Commonwealth School of Medicine       | Salus University                             |
| Geneva College                                  | Seton Hill University                        |
| Gettysburg College                              | Susquehanna University                       |
| Gratz College                                   | Swarthmore College                           |
| Grove City College                              | Thiel College                                |
| Gwynedd Mercy University                        | University of Pennsylvania                   |
| Harcum College                                  | University of the Sciences                   |
| Harrisburg University of Science and Technology | The University of Scranton                   |
| Haverford College                               | The University of the Arts                   |
| Holy Family University                          | Ursinus College                              |
| Immaculata University                           | Valley Forge Military College                |
| Johnson College                                 | Villanova University                         |
| Juniata College                                 | Washington & Jefferson College               |
| Keystone College                                | Waynesburg University                        |
| King's College                                  | Westminster College                          |
| LaRoche College                                 | Widener University                           |
| LaSalle University                              | Wilkes University                            |
| Lackawanna College                              | Wilmington University                        |
| Lafayette College                               | Wilson College                               |
| Lake Erie College of Osteopathic Medicine       | The Wistar Institute                         |
| Lancaster Bible College                         | York College of Pennsylvania                 |
| Lebanon Valley College                          |  |

---

\* Neither AICUP nor any AICUP member, other than any AICUP member in its individual capacity as the borrower of proceeds of a particular series of bonds issued in this financing program, has any liability for the repayment of any such series of bonds, or the loan of bond proceeds to the borrower.



Gwynedd Mercy  
University