In the opinion of Bond Counsel, interest on the 2007A Bonds is excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the conditions described in “TAX MATTERS” herein. In addition, interest on the 2007A Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the “Code”), for purposes of the individual and corporate alternative minimum taxes; however, under the Code, such interest may be subject to certain other taxes affecting corporate holders of the 2007A Bonds. Interest on the 2007B Bonds is included in gross income for purposes of federal income taxation. Under existing laws of the Commonwealth of Pennsylvania, the interest on the 2007 Bonds is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2007 Bonds or the interest thereon. For a more complete discussion, see “TAX MATTERS” herein.

$11,300,000
BUCKS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

| $11,000,000 | $300,000 |
| Revenue Bonds | Revenue Bonds |
| (School Lane Charter School Project) | (School Lane Charter School Project) |
| Series of 2007A | Series of 2007B (Taxable) |

Dated: Delivery Date | Due: March 15, as shown on the inside front cover

The Bucks County Industrial Development Authority (the “Authority”) intends to issue its Revenue Bonds (School Lane Charter School Project) Series of 2007A in the principal amount of $11,000,000 (the “2007A Bonds”) and its Revenue Bonds (School Lane Charter School Project) Series of 2007B (Taxable) in the principal amount of $300,000 (the “2007B Bonds” and together with the Series 2007A Bonds, the “2007 Bonds”).

The 2007 Bonds are being issued by the Authority pursuant to a Loan and Trust Agreement (the “Agreement”) between the Authority, School Lane Foundation (the “Borrower”), a Pennsylvania nonprofit corporation and 501(c)(3) Organization, and The Bank of New York, as trustee (the “Trustee”), and resolutions adopted by the Authority on May 4, 2006, and December 7, 2006. The proceeds of the 2007 Bonds will be loaned to the Borrower to be used, together with other available funds to: (i) finance the acquisition of the Land (as defined below) and a building located on the Land (the “Existing Building”) and the construction of a new school building (the “New Building”) on the Land adjacent to the Existing Building; (ii) to be leased to School Lane Charter School (the “School”), a Pennsylvania nonprofit corporation, 501(c)(3) Organization and a charter school duly organized and validly existing under Act 22 of 1997, pursuant to the terms of a lease agreement (the “Lease”), by and between the Borrower and the School; (iii) establish a debt service reserve fund for the 2007 Bonds; (iv) fund miscellaneous capital expenses; and (v) pay costs of issuing the 2007 Bonds (the “Project”). The School Buildings are located on approximately 3 acres of land in Bensalem, Pennsylvania (the “Land”) currently owned by the School, ownership of which, together with the Existing Building, will be acquired by the Borrower with the proceeds of the Bonds.

The 2007 Bonds will be payable from the moneys held for the payment thereof by the Trustee under the Agreement, including payments to be made by the Borrower thereunder and the Debt Service Reserve Fund. Interest is payable initially on September 15, 2007, and semiannually thereafter on each March 15 and September 15. Under the Lease, the Borrower will make rental payments sufficient to pay, among other things, debt service on the Bonds. To further secure the Borrower’s obligations under the Agreement, the Lease and rental payments thereunder shall be assigned to the Trustee pursuant to a Mortgage, Assignment of Leases, Security Agreement and Fixture Filing (the “Mortgage”) as security for the 2007 Bonds.

The 2007 Bonds will be issued as fully registered in book-entry form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the 2007 Bonds. Purchases of beneficial interests in the 2007 Bonds will be made in book-entry form and purchasers will not receive physical certificates representing the ownership interest in the 2007 Bonds purchased by them. The 2007 Bonds will be issued in denominations of $100,000 or any integral multiple of $5,000 in excess thereof. See “THE 2007 BONDS—Book Entry Only System” herein. The 2007 Bonds are subject to optional, mandatory and extraordinary optional redemption as described herein under “THE 2007 BONDS.”

The 2007 Bonds will be payable solely from the funds provided therefor, all as more fully described in the Agreement and this Official Statement. Neither the general credit of the Authority nor the general credit or taxing power of the Commonwealth of Pennsylvania or any political subdivision thereof, is pledged to the payment of the principal of the 2007 Bonds, or the interest or any premium thereon or other costs incident thereto. For more complete information with respect to the security for and sources of payment of the 2007 Bonds and certain risks with respect thereto, see “SECURITY FOR THE 2007 BONDS” and “BONDHOLDERS’ RISKS” herein.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement including the Appendices hereto to obtain information essential to making an informed investment decision.

Each initial purchaser of the 2007 Bonds will be required to sign a certification stating that it is a “qualified institutional buyer” as defined in Rule 144A of Regulation D promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended, or an “accredited investor” within the meaning of Rule 501 of Regulation D promulgated under such Securities Act.

The 2007 Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to receipt of the legal opinion of Latsha Davis Yohe & McKenna, Exton, Pennsylvania; Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Begley, Carlin & Mandio, LLP, Langhorne, Pennsylvania; for the Borrower and the School by their counsel, Latsha Davis Yohe & McKenna, P.C., Exton, Pennsylvania; and for the Underwriter by its counsel, Cozen O’Connor, Philadelphia, Pennsylvania. The 2007 Bonds in definitive form are expected to be available for delivery through the facilities of The Depository Trust Company on or about April 17, 2007.

Dated: April 5, 2007
BUCKS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

$11,000,000
Revenue Bonds
(School Lane Charter School Project)
Series of 2007A

Maturity Schedule
(Base CUSIP: 118612)

4.600% Term Bond due March 15, 2017  Price 100% to Yield 4.600%  CUSIP 118612 KW9
4.875% Term Bond due March 15, 2027  Price 100% to Yield 4.875%  CUSIP 118612 KX7
5.000% Term Bond due March 15, 2037  Price 100% to Yield 5.000%  CUSIP 118612 KY5

$300,000
Revenue Bonds
(School Lane Charter School Project)
Series of 2007B (Taxable)

Maturity Schedule
(Base CUSIP: 118612)

6.480% Term Bond due March 15, 2009  Price 100% to Yield 6.476%  CUSIP 118612 KZ2
In connection with this offering, The Underwriter may over allot or effect transactions that stabilize or maintain the market price of the 2007 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 or the School to give any information or to make any representations with respect to the 2007 Bonds, other than those contained in this Official Statement. Such other information or representations, if given or made, must not be relied upon as having been authorized by the Authority, the Borrower or the School. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there by any sale of the 2007 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice. 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 any of the information set forth herein since the date hereof or the dates of the information contained herein.

The Authority has not prepared or assisted in the preparation of this Official Statement except for the statements under the caption “THE AUTHORITY.” The Authority has only reviewed the information contained herein under the caption “THE AUTHORITY” and approved such information for use within the Official Statement.

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. The Official Statement, including the appendices, must be considered in its entirety.

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INTRODUCTION

Purpose

The purpose of this Official Statement (which includes the cover hereof and the appendices hereto) of the Bucks County Industrial Development Authority (the “Authority”) is to furnish information concerning School Lane Foundation, a Pennsylvania nonprofit corporation and a 501(c)(3) Organization (as defined herein) (the “Borrower”), School Lane Charter School (the “School”), a nonprofit corporation, 501(c)(3) Organization and a charter school duly organized and validly existing under Act 22 (as defined herein), and the Authority’s $11,000,000 Revenue Bonds (School Lane Charter School Project) Series of 2007A (the “2007A Bonds”) and $300,000 Revenue Bonds (School Lane Charter School Project) Series of 2007B (Taxable) (the “Series 2007B Bonds”, and together with the Series 2007A Bonds, the “2007 Bonds”).

The 2007 Bonds

The 2007 Bonds are issued under the laws of the Commonwealth of Pennsylvania (the “Commonwealth”), including the Economic Development Financing Law of the Commonwealth, the Act of August 23, 1967, P.L. 251, as amended (the “Act”), and pursuant to resolutions of the Authority adopted on May 4, 2006, December 7, 2006, and April 5, 2007. The issuance of the 2007 Bonds was approved on January 16, 2007, by the Board of Directors of each of the Borrower and the School. The 2007 Bonds are also issued pursuant to a Loan and Trust Agreement (the “Agreement”) among the Authority, the Borrower and The Bank of New York, as trustee (the “Trustee”). Under the Agreement, the Trustee is appointed registrar, paying agent and transfer agent with respect to the 2007 Bonds.

The Project

The proceeds of the 2007 Bonds will be loaned to the Borrower to be used, together with other available funds to: (i) finance the acquisition of the Land (as defined below) and an existing building (the “Existing Building”) located on the Land and the construction of a new school building (the “New Building”) on the Land adjacent to the Existing Building (the Existing Building, together with the New Building, the “School Buildings”), to be leased to the School, a Pennsylvania not-for-profit corporation and a charter school existing under Act 22, pursuant to the terms of a lease agreement (the “Lease”) by and between the Borrower and the School; (ii) to establish a debt service reserve fund for the 2007 Bonds; (iii) to fund miscellaneous capital expenses; and (iv) to pay costs of issuing the 2007 Bonds (collectively, the “Project”). See Appendix A and Appendix C.
The School Buildings are located on approximately three acres of land at 2400 Bristol Pike in Bensalem, Pennsylvania (the “Land”) currently owned by the School, ownership of which, together with the Existing Building, will be acquired by the Borrower with the proceeds of the Bonds.

The 2007 Bonds will be payable from the moneys held for the payment thereof by the Trustee under the Agreement, including payments to be made by the Borrower thereunder and the Debt Service Reserve Fund.

**Lease Pledged Under Mortgage**

Simultaneously with the issuance of the 2007 Bonds, the Borrower will enter into the Lease and rental payments thereunder will be assigned to the Trustee pursuant to a Mortgage, Assignment of Leases, Security Agreement and Fixture Filing (the “Mortgage”) as security for the Series 2007 Bonds. Pursuant to the Lease, the School will make rental payments sufficient, among other things, to pay debt service on the 2007 Bonds, will assume certain obligations of the Borrower under the Agreement and covenant to use the School Buildings for its charitable purposes consistent with its 501(c)(3) status. The stated term of the Lease will expire upon the final scheduled maturity of the 2007 Bonds. The School has covenanted under the Lease that upon an Event of Default under the Agreement and Notice from the Trustee, the School will send notice to the school districts with students attending the School (the “School Districts”) for all of the School District Payments and all other School Revenues be paid directly to the Trustee and applied pursuant to the Agreement. See “SECURITY FOR THE 2007 BONDS – Revenue Fund” and “Appendix C – “The Lease.”

**THE AUTHORITY**

**Organization**

The Authority is a public instrumentality of the Commonwealth of Pennsylvania (the “Commonwealth”) and a body corporate and politic, created by the County of Bucks (the “County”) pursuant to the Act. The Authority was incorporated on March 12, 1968 and its Certificate of Incorporation was amended on May 24, 1989 and July 23, 2001. The Authority, under the Act, is empowered to enter into agreements providing for, among other things, the purchase, construction and financing of industrial, commercial and specialized development projects and the lease, sale or loan financing of such projects with the occupant thereof, for the public purposes of alleviating unemployment, maintaining employment at a high level and creating and developing business opportunities in order to effectuate the declared public policy of the Commonwealth of promoting the health, safety and general welfare of the people of the Commonwealth. The Series 2007 Bonds are limited obligations of the Authority as described under “SECURITY FOR THE 2007 BONDS – Limited Obligations.”
Board of the Authority

The Authority is governed by a Board consisting of five members, none of whom may be a County Commissioner of the County. Board Members are appointed by the elected County Commissioners of the County for staggered five-year terms and may be reappointed. The present members of the Board of the Authority are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harry W. Fawkes</td>
<td>Chairman</td>
</tr>
<tr>
<td>Gerald C. Forest</td>
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</tr>
<tr>
<td>Mary K. Smithson</td>
<td>Treasurer</td>
</tr>
<tr>
<td>Francis B.J. Branagan</td>
<td>Secretary</td>
</tr>
<tr>
<td>Edgar N. Putman</td>
<td>Assistant Secretary</td>
</tr>
</tbody>
</table>

Financing Program of the Authority

The Authority has a number of special obligation bond and note issues outstanding and may issue others from time to time. Each such issue is payable solely from revenues derived from the project being financed, from special funds established therefor or from other financing arrangements, is separately secured and is separate and independent from the 2007 Bonds as to sources of payment and security.

The Authority has experienced defaults with respect to certain obligations issued by it, by reason of nonpayment of debt service by the party receiving financing through the Authority. The 2007 Bonds are, however, payable solely from the funds pledged under the Agreement and any other obligations issued by the Authority are payable solely from the funds specifically pledged for the payment of such other obligations. Accordingly, a default on another issue of obligations issued by the Authority would not constitute a default on the 2007 Bonds. The Authority may from time to time enter into further transactions with other entities in connection with projects unrelated to the Project. Such transactions will provide for the issuance of bonds or notes to be secured by separate sources of revenues or other security.

At the time of delivery of the 2007 Bonds, the Authority will, among other things, confirm the assignment of all of its rights under the Agreement to the Trustee (subject to certain reserved rights).

THE AUTHORITY HAS NOT PREPARED OR ASSISTED IN THE PREPARATION OF THIS OFFICIAL STATEMENT, EXCEPT THE STATEMENTS UNDER THIS SECTION AND UNDER THE HEADING “ABSENCE OF MATERIAL LITIGATION” BELOW IN RESPECT OF THE AUTHORITY AND, EXCEPT AS TO THOSE STATEMENTS, THE AUTHORITY IS NOT RESPONSIBLE FOR, AND DOES NOT REPRESENT OR WARRANT IN ANY WAY THE ACCURACY OR COMPLETENESS OF, ANY INFORMATION OR ANY STATEMENTS MADE HEREIN. ACCORDINGLY, EXCEPT AS AFORESAID, THE AUTHORITY DISCLAIMS RESPONSIBILITY FOR THE DISCLOSURE SET FORTH HEREIN MADE IN CONNECTION WITH THE OFFER, SALE AND DISTRIBUTION OF THE 2007 BONDS.

The Authority’s address is 2 East Court Street, Doylestown, Pennsylvania 18901.

THE BORROWER

The Borrower is a Pennsylvania non-profit corporation and an organization exempt from federal income taxation pursuant to Section 501(a) of the Code as a result of the application of Section 501(c)(3) of the Code (a “501(c)(3) Organization”). The Borrower was created to operate exclusively for the
support and benefit of the School and any affiliates, and the School elects the Borrower’s trustees and is also given the right to approve certain other actions by the Borrower. Additional information about the Borrower is located in Appendix A to this Official Statement.

THE SCHOOL

The School is a Pennsylvania nonprofit corporation, a charter school existing under Act 22 of 1997 (“Act 22”) and a 501(c)(3) Organization. The School’s original charter was issued on June 24, 1998, by the Bensalem Township School District with a term of five years. On June 25, 2003, the charter for the School was renewed for a term of five years and is subject to review and renewal every five years. The local school district has jurisdiction over charter renewals. See “CHARTER SCHOOLS” below. Additional information about the School is located in Appendix A.

SITE LOCATION MAP

School Lane Charter School
2400 Bristol Pike, Bensalem, Pennsylvania

THE PROJECT

At present, the School owns and operates out of a historic building in Bensalem, Pennsylvania, located at 2400 Bristol Pike in Bensalem, Pennsylvania. The School also leases classroom and office space located at 2426 Bristol Pike, commonly referred to as the “Annex”. It is anticipated that the Annex will continue to serve as office space, or in the alternative, the Annex will be razed to construct a parking area for the School’s use. The proceeds of the 2007 Bonds will permit the Borrower to, among other things, construct an addition to the existing facility for use by the School as a gymnasium, classrooms and office space, install a modern air conditioning system in the existing facility and renovate and generally modernize the School. The proceeds of the 2007 Bonds will be loaned to the Borrower to be used, together with other available funds, to finance the Project. See Appendix A for further information regarding the Project.
ARCHITECT’S RENDERING OF THE PROJECT
ESTIMATED SOURCES AND USES OF FUNDS

Proceeds of the 2007 Bonds will be used, together with other available funds, to finance the Project. Project funds are expected to be expended over a period of approximately six (6) months, beginning at the closing of the issuance of the 2007 Bonds.

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<th>SOURCES OF FUNDS</th>
<th>SERIES</th>
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<td>2007A</td>
<td>2007B</td>
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<td>Par Amount of Bonds</td>
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<th>USES OF FUNDS</th>
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<td>Deposit to Project Fund</td>
<td>$9,076,995</td>
<td>$70,000</td>
<td>$9,146,995</td>
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<td>Acquisition of Land and Existing Building</td>
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<td>Debt Service Reserve Fund</td>
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<td>Costs of Issuance*</td>
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<td>449,150</td>
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<tr>
<td><strong>TOTAL USES</strong></td>
<td>$11,000,000</td>
<td>$300,000</td>
<td>$11,300,000</td>
</tr>
</tbody>
</table>

*Estimated fees, expenses, and underwriter’s discount related to the issuance and sale of the 2007 Bonds.

THE 2007 BONDS

Description of the 2007 Bonds

The 2007 Bonds will be dated the date of delivery, and bear interest and mature as set forth on the inside front cover page of this Official Statement. Interest on the 2007 Bonds is payable on March 15 and September 15 of each year, commencing September 15, 2007 (each, an “Interest Payment Date”). Each 2007 Bond shall bear interest from the Interest Payment Date to which interest has been paid next preceding the date of authentication, unless the date of authentication (i) is an Interest Payment Date to which interest has been paid, in which event such Bond shall bear interest from the date of authentication, or (ii) is on or prior to the first Interest Payment Date for the 2007 Bonds, in which event such Bond shall bear interest from the Dated Date. Interest payable on the 2007 Bonds shall be computed on the basis of a 360-day year of twelve 30-day months.

The 2007 Bonds are issued only as fully registered Bonds without coupons. The 2007 Bonds will be issued in the denominations of $100,000 or any integral multiple of $5,000 in excess thereof. Subject to the provisions relating to the “Book-Entry-Only System” with respect to the Series 2007 Bonds described below, the principal of the 2007 Bonds is payable at the corporate trust office of the Trustee in Malvern, Pennsylvania, to the registered owner of each 2007 Bond. Interest on each 2007 Bond is payable by check mailed to the person in whose name such 2007 Bond is registered, at the address of such person appearing on the registration books, at the close of business on the Regular Record Date applicable to that Interest Payment Date, unless the Authority shall default in the payment of interest due on such interest payment date. In the event of any such default, such defaulted interest will be payable to the person in whose name such Bond is registered at the close of business on a special record date for the payment of that interest which shall be the fifth Business Day preceding the day set for payment of such interest prior to the special record date (the “Special Record Date”), and the Trustee shall cause notice of
the proposed payment and of the Special Record Date to be mailed by first class mail, postage prepaid, to each Holder at its address as it appears on the Register not fewer than 10 days prior to the Special Record Date and, thereafter, that interest shall be payable to the persons who are the Holders of the 2007 Bonds at the close of business on the Special Record Date. At the election of any Holder of the 2007 Bonds who owns $1,000,000 or more in principal amount of 2007 Bonds, interest may be paid by wire transfer to any account in the United States of America, if written instructions satisfactory to the Trustee, in its sole discretion, are delivered to the Trustee at least two Business Days prior to the first payment of interest to which it relates.

The principal or redemption price becoming due with respect to the 2007 Bonds shall, at the written request of the Holder of at least $1,000,000 aggregate principal amount of such Bonds received by the Trustee at least two Business Days before the surrender of such Bonds, be paid by wire transfer within the continental United States in immediately available funds to the bank account number of such Holder specified in such request, but, in the case of principal or redemption price, only upon presentation and surrender of such Bonds at the corporate trust office of the Trustee in Malvern, Pennsylvania, or at the duly designated office of any duly appointed alternate or successor trustee. Regular Record Date means the close of business on each March 1 and September 1 (or the last preceding Business Day if such day is not a Business Day) immediately preceding the scheduled Interest Payment Date.

**Book-Entry-Only System**

The Depository Trust Company, New York, NY (“DTC”), will act as securities depository for the 2007 Bonds. The 2007 Bonds will be issued as fully-registered securities registered in the name of Cede & Co (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the 2007 Bonds, the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: “AAA”. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).
Purchases of 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2007 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 2007 Bonds, except in the event that use of the book-entry system for the 2007 Bonds is discontinued.

To facilitate subsequent transfers, all 2007 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2007 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2007 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to securities unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2007 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 Agent, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC nor its nominee, Agent or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2007 Bonds at any time by giving reasonable notice to Authority or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

THE INFORMATION PROVIDED IMMEDIATELY ABOVE UNDER THIS CAPTION HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE BORROWER, THE SCHOOL NOR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

For so long as the 2007 Bonds are registered in the name of DTC or its nominee or any successor securities depository or its nominee, the Authority and the Trustee will recognize only DTC or its nominee or such successor securities depository or its nominee as the registered owner of the 2007 Bonds for all purposes, including payments, notices and voting.

Under the Agreement, payments made by the Trustee to DTC or its nominee or any successor securities depository or its nominee shall satisfy the Authority’s obligations under the Agreement to the extent of the payments so made.

Neither the Authority, the Borrower, the School nor the Trustee has any responsibility or obligation with respect to: (i) the accuracy of the records of DTC, its nominee or any DTC Participant or Indirect Participant or any successor securities depository, participants thereof or nominee thereof with respect to any beneficial ownership interest in the 2007 Bonds; (ii) the delivery to any DTC Participant or Indirect Participant or participant of any successor securities depository or any other Person, other than a registered owner, as shown in the Bond Register, of any notice with respect to any 2007 Bond, including, without limitation, any notice of redemption; (iii) the payment to any DTC Participant or Indirect Participant or participant of any successor securities depository or any other Person, other than a registered owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on, or the purchase price of, any 2007 Bond; (iv) any consent given by DTC or any successor securities depository as registered owner; or (v) the selection by DTC or any Direct Participant or Indirect Participant or by any Successor Depository or its participants of the beneficial ownership interests in 2007 Bonds for partial redemption.

So long as the 2007 Bonds are held in the book-entry only system of the securities depository, the Authority and Trustee may treat DTC and any successor securities depository as, and deem DTC and any successor securities depository to be, the absolute owner of the 2007 Bonds for all purposes whatsoever, including, without limitation: (i) the payment of the principal of, premium, if any, and interest on the 2007 Bonds; (ii) giving notices of redemption and other matters with respect to the 2007 Bonds; (iii) registering transfers with respect to the 2007 Bonds; and (iv) the selection of the beneficial ownership interests in 2007 Bonds for partial redemption.

Portions of the following information concerning DTC and DTC’s book-entry system have been obtained from DTC. The Authority, The Underwriter, the Borrower and the School make no representation as to the accuracy of such information.

Registration, Transfer and Exchange

The Trustee has been appointed bond registrar and transfer agent for the 2007 Bonds and as such will maintain the books of the Authority for the registration or ownership of each 2007 Bond. Subject to the provisions relating to the Book-Entry-Only System described above, any 2007 Bonds may be transferred upon presentation and surrender thereof at the corporate trust office of the Trustee, together
with a written instrument of transfer duly executed by the Holder or its duly authorized attorney in form and with guarantee of signature satisfactory to the Trustee. Upon transfer of any 2007 Bond, the Authority shall execute in the name of the transferee, and the Trustee shall authenticate and deliver, a new 2007 Bond or 2007 Bonds of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed principal amount of, and bearing interest at the same rate and maturing on the same date or dates as, the 2007 Bonds presented and surrendered for transfer.

Any 2007 Bond or Bonds of a particular maturity may be exchanged, at the option of their Holder, for Bonds of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed principal amount of, and bearing interest at the same rate and maturing on the same date or dates as, the 2007 Bonds being exchanged. The exchange shall be made upon presentation and surrender of the 2007 Bonds being exchanged at the corporate trust office of the Trustee, together with a written instrument of transfer duly executed by the Holder or its duly authorized attorney in form and with guarantee of signature satisfactory to the Trustee. In the case of any 2007 Bond properly surrendered for partial redemption, the Trustee shall authenticate and deliver a new 2007 Bond or Bonds in exchange therefor in authorized denominations in an aggregate principal amount equal to the unmatured and unredeemed portion of, and bearing interest at the same rate and maturing on the same date or dates as, the 2007 Bond redeemed in part.

The Trustee shall not be required to effect any transfer or exchange of (i) any 2007 Bond during the ten days preceding any date fixed for selection for redemption if such 2007 Bond (or any portion thereof) is eligible for redemption or (ii) any 2007 Bond selected for redemption in whole or part. No charge shall be imposed in connection with any transfer or exchange, except for taxes or governmental charges related thereto. No transfers or exchanges shall be valid for any purposes except as described above.

**Redemption Prior to Maturity**

THE 2007 BONDS SHALL BE SUBJECT TO OPTIONAL, MANDATORY SINKING FUND AND EXTRAORDINARY REDEMPTION PRIOR TO MATURITY AS SET FORTH HEREIN.

Optional Redemption. The 2007A Bonds maturing on or after March 15, 2018, are subject to optional redemption by the Authority at the direction of the Borrower, as a whole or from time to time in part (in such order of maturity as is directed by the Borrower and within a maturity by random selection by the Trustee), at any time on or after March 15, 2017, at redemption prices equal to 100% of the principal amount thereof together with accrued interest to the redemption date.

The Series 2007B Bonds are not subject to optional redemption.

Mandatory Sinking Fund Redemption -- 2007A Bonds. The 2007A Bonds maturing on March 15, 2017, March 15, 2027, and March 15, 2037, are subject to mandatory redemption prior to maturity, in direct order of maturity, and if in part, by random selection by the Trustee, at a redemption price of 100% of the principal amount redeemed plus accrued interest to the date fixed for redemption, on March 15 of the following years in the following principal amounts:
<table>
<thead>
<tr>
<th>Term Bonds Maturing on March 15, 2017</th>
<th>Term Bond Maturing on March 15, 2027</th>
<th>Term Bonds Maturing on March 15, 2037</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>Principal Amount</td>
<td>Year</td>
</tr>
<tr>
<td>2009</td>
<td>$75,000</td>
<td>2018</td>
</tr>
<tr>
<td>2010</td>
<td>180,000</td>
<td>2019</td>
</tr>
<tr>
<td>2011</td>
<td>190,000</td>
<td>2020</td>
</tr>
<tr>
<td>2012</td>
<td>200,000</td>
<td>2021</td>
</tr>
<tr>
<td>2013</td>
<td>205,000</td>
<td>2022</td>
</tr>
<tr>
<td>2014</td>
<td>215,000</td>
<td>2023</td>
</tr>
<tr>
<td>2015</td>
<td>225,000</td>
<td>2024</td>
</tr>
<tr>
<td>2016</td>
<td>235,000</td>
<td>2025</td>
</tr>
<tr>
<td>2017*</td>
<td>250,000</td>
<td>2026</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2027*</td>
</tr>
</tbody>
</table>

*Maturity

**Mandatory Sinking Fund Redemption – 2007B Bonds.** The 2007B Bonds maturing on March 15, 2009, are subject to mandatory redemption prior to maturity, in direct order of maturity, and if in part, by random selection by the Trustee, at a redemption price of 100% of the principal amount redeemed plus accrued interest to the date fixed for redemption, on March 15 of the following years in the following principal amounts:

<table>
<thead>
<tr>
<th>Term Bonds Maturing on March 15, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>2008</td>
</tr>
<tr>
<td>2009*</td>
</tr>
</tbody>
</table>

*Maturity

In the event that any 2007 Bonds are redeemed (other than through mandatory sinking fund redemption) and are cancelled by the Trustee, the Trustee shall cause the Authority to receive a credit against its sinking fund redemption obligations in the aggregate principal amount of 2007 Bonds so redeemed, such credits to be given in such order of maturity as may be directed in writing by the Borrower, or in the event the Borrower fails to so specify, in inverse order of redemption date. Also, at its option, the Borrower may deliver to the Trustee for cancellation 2007 Bonds purchased by the Borrower pursuant to the Agreement. Such 2007 Bonds so purchased, delivered and cancelled 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 School, and the principal amount of 2007 Bonds to be redeemed by sinking fund redemption shall be accordingly reduced.

**Extraordinary Optional Redemption.** The 2007 Bonds are subject to Extraordinary Optional Redemption by the Authority, at the direction of the Borrower. The 2007 Bonds shall be redeemed to the maximum extent possible, in whole or from time to time (in such order of maturity as shall be set forth in a written request of the Borrower) in part at any time prior to maturity at a redemption price equal to
100% of the principal amount thereof together with accrued interest to the date of redemption, from the net proceeds of casualty or condemnation upon the election of the Borrower or if it is not able to comply with the conditions of the Agreement for repair or replacement. See Appendix C - “The Loan and Trust Agreement - Proceeds of Insurance or Condemnation Award.”

If less than all of the 2007 Bonds are to be called for extraordinary optional redemption, 2007 Bonds shall be redeemed pro rata among maturities and within a maturity by lot.

Redemption Procedures. When required or directed to redeem the 2007 Bonds under the Agreement, the Trustee shall cause notice of the redemption to be given no more than 60 nor fewer than 30 days prior to the redemption date, by mailing copies of such notice of redemption by first class mail, postage prepaid, to the holders of the 2007 Bonds to be redeemed at their registered addresses. Each such notice shall identify the 2007 Bonds to be redeemed (specifying the CUSIP numbers, if any, assigned to the 2007 Bonds), contain any other descriptive information needed to identify accurately the 2007 Bonds being redeemed, in the case of partial redemption of any Bonds, state the respective principal amounts thereof to be redeemed, state the redemption date and the redemption price, state that on the redemption date the redemption price will become due and payable upon each such 2007 Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and indicate the place where the 2007 Bonds are to be surrendered for payment of the redemption price. Failure to mail any such notice or defect in the mailing thereof for any Bond shall not affect the validity of the redemption of any other Bond with respect to which notice was properly given.

If at the time of the mailing of notice of any optional redemption there shall not have been deposited moneys in the Bond Fund available for payment sufficient to redeem all the 2007 Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of the redemption moneys in the Bond Fund available for payment pursuant to the Agreement not later than the opening of business on the redemption date, in which case such notice shall be of no effect unless such moneys are so deposited.

Partial Redemptions. If fewer than all of the 2007 Bonds of a maturity are to be redeemed, the selection of Bonds within such maturity to be redeemed shall be by random drawing, and each $5,000 unit of face value shall be treated as a separate Bond. Any redemption of less than the entire principal amount of the 2007 Bonds shall be made only in denominations of $5,000 principal amount, or any whole multiple thereof. In such case, the registered owner shall surrender the 2007 Bonds in exchange for one or more Bonds in an aggregate principal amount equal to the unredeemed portion of the principal amount thereof.

Acceleration

The principal of the 2007 Bonds, together with all interest accrued thereon, may be declared to be immediately due and payable by the Trustee, and upon written direction from the Holders of 25% in aggregate principal amount of the Outstanding 2007 Bonds, shall be declared immediately due and payable by the Trustee, upon the occurrence and continuation of an Event of Default under the Agreement as described in Appendix C under “The Loan and Trust Agreement– Remedies on Default.”
DEBT SERVICE REQUIREMENTS

The following table sets forth for each year ending June 30, the amounts required each year to be made available for the payment of the 2007 Bonds. The principal amounts and sinking fund requirements on (a) the Series 2007 Bonds will be paid March 15 and (b) the interest on the Series 2007 Bonds will be payable on March 15 and September 15, commencing September 15, 2007.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
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<td>$17,712.00</td>
<td>$6,156.00</td>
<td>$713,658.53</td>
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<td>$535,393.76</td>
<td>$95,000.00</td>
<td>$6,156.00</td>
<td>$714,999.76</td>
</tr>
<tr>
<td>2010</td>
<td>$527,113.76</td>
<td>$509,173.76</td>
<td>$715,393.76</td>
<td>$6,156.00</td>
<td>$715,393.76</td>
</tr>
<tr>
<td>2011</td>
<td>$518,373.76</td>
<td>$499,743.76</td>
<td>$714,999.76</td>
<td>$6,156.00</td>
<td>$717,113.76</td>
</tr>
<tr>
<td>2012</td>
<td>$518,373.76</td>
<td>$489,853.76</td>
<td>$714,853.76</td>
<td>$6,156.00</td>
<td>$718,373.76</td>
</tr>
<tr>
<td>2013</td>
<td>$527,113.76</td>
<td>$479,503.76</td>
<td>$714,503.76</td>
<td>$6,156.00</td>
<td>$714,173.76</td>
</tr>
<tr>
<td>2014</td>
<td>$499,743.76</td>
<td>$468,693.76</td>
<td>$718,693.76</td>
<td>$6,156.00</td>
<td>$714,743.76</td>
</tr>
<tr>
<td>2015</td>
<td>$489,853.76</td>
<td>$457,193.76</td>
<td>$718,373.76</td>
<td>$6,156.00</td>
<td>$717,193.76</td>
</tr>
<tr>
<td>2016</td>
<td>$479,503.76</td>
<td>$444,518.76</td>
<td>$718,518.76</td>
<td>$6,156.00</td>
<td>$716,518.76</td>
</tr>
<tr>
<td>2017</td>
<td>$468,693.76</td>
<td>$431,356.26</td>
<td>$716,356.26</td>
<td>$6,156.00</td>
<td>$716,356.26</td>
</tr>
<tr>
<td>2018</td>
<td>$457,193.76</td>
<td>$417,462.50</td>
<td>$717,462.50</td>
<td>$6,156.00</td>
<td>$717,462.50</td>
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<tr>
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<td>$717,481.26</td>
<td>$6,156.00</td>
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</tr>
<tr>
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<td>$431,356.26</td>
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<td>$718,393.76</td>
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<td>$714,743.76</td>
</tr>
<tr>
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<td>$718,937.50</td>
</tr>
<tr>
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<td>$717,025.00</td>
<td>$6,156.00</td>
<td>$718,025.00</td>
</tr>
<tr>
<td>2023</td>
<td>$354,575.00</td>
<td>$318,500.00</td>
<td>$718,500.00</td>
<td>$6,156.00</td>
<td>$719,000.00</td>
</tr>
<tr>
<td>2024</td>
<td>$337,025.00</td>
<td>$299,000.00</td>
<td>$718,000.00</td>
<td>$6,156.00</td>
<td>$718,000.00</td>
</tr>
<tr>
<td>2025</td>
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<td>$718,000.00</td>
<td>$6,156.00</td>
<td>$718,000.00</td>
</tr>
<tr>
<td>2026</td>
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<td>$256,000.00</td>
<td>$716,000.00</td>
<td>$6,156.00</td>
<td>$718,000.00</td>
</tr>
<tr>
<td>2027</td>
<td>$278,000.00</td>
<td>$318,500.00</td>
<td>$718,500.00</td>
<td>$6,156.00</td>
<td>$718,000.00</td>
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<td>2028</td>
<td>$256,000.00</td>
<td>$233,000.00</td>
<td>$718,000.00</td>
<td>$6,156.00</td>
<td>$718,000.00</td>
</tr>
<tr>
<td>2029</td>
<td>$233,000.00</td>
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<td>$718,750.00</td>
<td>$6,156.00</td>
<td>$718,750.00</td>
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<td>2030</td>
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<td>$183,250.00</td>
<td>$718,250.00</td>
<td>$6,156.00</td>
<td>$718,250.00</td>
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<tr>
<td>2031</td>
<td>$183,250.00</td>
<td>$156,500.00</td>
<td>$716,500.00</td>
<td>$6,156.00</td>
<td>$716,500.00</td>
</tr>
<tr>
<td>2032</td>
<td>$156,500.00</td>
<td>$128,500.00</td>
<td>$718,500.00</td>
<td>$6,156.00</td>
<td>$718,500.00</td>
</tr>
<tr>
<td>2033</td>
<td>$128,500.00</td>
<td>$99,000.00</td>
<td>$714,000.00</td>
<td>$6,156.00</td>
<td>$714,000.00</td>
</tr>
<tr>
<td>2034</td>
<td>$99,000.00</td>
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<td>$6,156.00</td>
<td>$714,000.00</td>
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<td>2035</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,432,250.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$11,000,000.00</td>
<td>$10,890,234.17</td>
<td>$300,000.00</td>
<td>$23,868.00</td>
<td>$22,214,102.17</td>
</tr>
</tbody>
</table>

SECURITY FOR THE 2007 BONDS

The descriptions and summaries of certain provisions of the Agreement, the Lease and the Mortgage set forth below and in Appendix C do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms, conditions and covenants.
Limited Obligations


Security for Obligations under the Agreement; Pledge of Gross Receipts of the Borrower

Under the Agreement, as security for its obligation to make payments required thereunder and to perform its other obligations thereunder, the Authority will pledge and grant to the Trustee a lien on and security interest in (a) the rights, title and interest of the Authority under the Agreement, (b) all of the Authority’s rights, whether currently existing or hereafter acquired, to enforce any loan or loans of proceeds of 2007 Bonds made by the Authority to the Borrower pursuant to the terms of the Agreement, and (c) all revenues to be received from the Borrower and all funds and investments held from time to time in the Funds established under the Agreement. See “SECURITY FOR THE 2007 BONDS – Revenue Fund” herein.

As additional security for the obligations of the Borrower to make all payments due, and to perform all obligations, under the Agreement, the Borrower will grant to the Trustee a security interest in its Pledged Revenues and any rights to receive such Pledged Revenues. Such security interest shall not restrict the right of the Borrower to apply its Pledged Revenues in such manner and to such purposes as it deems appropriate so long as no Event of Default has occurred and is continuing. “Pledged Revenues” means, regardless of the source, all revenues, rentals, fees, third-party payments, receipts, unrestricted donations, unrestricted contributions or other income of the Borrower, to the extent permitted by the terms thereof and by law, including all the rights to receive such revenues (each subject to Permitted Encumbrances), all as calculated in accordance with sound accounting practices, including, without limitation, School District Payments (whether paid to the Borrower or to the Trustee on behalf of the Borrower), federal grants and aid, extended daycare, food services sales proceeds derived from insurance, condemnation proceeds, accounts, contract rights and other rights and assets, whether now or hereafter owned, held or possessed by the Borrower, and all gifts, grants, bequests and contributions (including income and profits therefrom) to the extent permitted by the terms thereof and by law. The Borrower has covenanted, upon an Event of Default resulting from nonpayment of debt service on the Bonds, to deliver daily to the Trustee, or permit the Trustee to collect directly, insofar as practicable, all of the Pledged Revenues for deposit in the Revenue Fund until such Event of Default is cured. The Trustee is so authorized to exercise the rights of the Authority and enforce the obligations of the Borrower under the Agreement.

The Lease

Under the Lease, the Borrower has leased the Premises to the School, including all appurtenances, easements, declarations and rights-of-way related thereto. The Premises include the Land and the School Buildings.
For the lease of the Premises, the School has agreed to pay base rentals, which are equal to the amounts required to pay debt service on the 2007 Bonds, no later than the 25th of each Month, commencing May 25, 2007. In addition to such base rentals, the School has agreed to pay to the Borrower the additional rentals sufficient to pay the following costs, as estimated by the Borrower, during the next ensuing Fiscal Year (a) the reasonable fees and expenses of the Trustee and the Borrower under the Agreement; (b) the cost of insurance premiums for the Premises; (c) the cost of taxes, utility charges, maintenance, upkeep and repair costs for the Premises; (d) payments into the Debt Service Reserve Fund required by the Agreement; (e) payments into the Rebate Fund required by the Agreement; (f) payments into the Repair and Replacement Fund required by the Agreement; and (g) certain indemnification payments due the Borrower or its directors and officers under the Lease.

The School and the Borrower may agree on the payments of other additional rentals under the Lease if they deliver to the Trustee an Officer’s Certificate certifying that, for the applicable Fiscal Year, after taking into account such proposed additional rentals, the School will be in compliance with all financial and other covenants contained in the Lease and that no Event of Default exists under the Lease. Payment of such additional rentals shall be subordinate to the payment of base rentals.

The School has covenanted under the Lease that upon an Event of Default under the Agreement and Notice from the Trustee, the School will send notice to the School Districts for all of the School District Payments and all other School Revenues be paid directly to the Trustee and applied pursuant to the Agreement. See “SECURITY FOR THE 2007 BONDS – Revenue Fund” and “Appendix C – ‘The Lease.’” See “Revenue Fund” herein.

The Lease sets forth further covenants and agreements of the School. See Appendix C- “The Lease.”

Lease Pledged Under Mortgage

Simultaneously with the issuance of the 2007 Bonds, the Borrower will enter into the Lease with the School with respect to the Land and School Buildings. The Lease and the rental payments thereunder shall be assigned to the Trustee pursuant to the Mortgage as security for the Series 2007 Bonds.

As security for the obligations of the School to make all payments due, and to perform all Obligations under the Lease, the School has granted to the Borrower a security interest in the Collateral.

Pursuant to the Lease, the School has agreed to perform certain obligations of the Borrower under the Agreement and covenants to use the Land and School Buildings for its charitable purposes consistent with its status as a 501(c)(3) Organization and in compliance with its charter and Act 22. The stated term of the Lease will expire upon the final scheduled maturity of the 2007 Bonds.

Revenue Fund

Upon an Event of Default under the Agreement (until cured or waived), the Trustee shall require that the School send out a notice to the School Districts for all School District Payments to be paid to an account of the School held by the Trustee and transferred on a daily basis to the Revenue Fund, and all other amounts required to be paid by the Borrower to the Trustee pursuant to the Agreement and all other monies required to be deposited into the Revenue Fund pursuant to the Agreement shall also be deposited therein.

All monies held on deposit in the Revenue Fund shall be disbursed by the Trustee on the following dates in the following order of priority:
FIRST: on each Monthly Disbursement Date, commencing in May, 2007, for deposit in the Bond Interest Fund an amount (after taking into consideration earnings and/or any amounts designated for capitalized interest then on deposit in the Bond Interest Fund) equal to one-fourth (1/4) of the interest due on the 2007 Bonds on September 15, 2007, and (b) commencing in September, 2007, for deposit in the Bond Interest Fund, an amount (after taking into consideration earnings and/or amounts designated for capitalized interest then on deposit in the Bond Interest Fund) equal to one-sixth (1/6) of the interest due on the 2007 Bonds on the next subsequent Interest Payment Date plus (c) in each case, all amounts due as to interest on the 2007 Bonds on the Monthly Disbursement Date of any previous calendar month pursuant to this paragraph which have not otherwise been credited to the Bond Interest Fund pursuant to this paragraph or transferred to the Bond Interest Fund pursuant to the Agreement;

SECOND: on each Monthly Disbursement Date, (a) commencing in May, 2007, for deposit in the Bond Principal Fund an amount equal to one-tenth (1/10) of the principal due on the 2007 Bonds on March 15, 2008, and (b) commencing in March, 2008, for deposit in the Bond Principal Fund, an amount equal to one-twelfth (1/12) of the principal due on the 2007 Bonds on the next succeeding Principal Payment Date, plus (c) in each case, all amounts due as to principal on the 2007 Bonds on the Monthly Disbursement Date of any preceding month which have not otherwise been credited to the Bond Principal Fund pursuant to this paragraph or transferred to the Bond Principal Fund pursuant to the Agreement;

THIRD: on each Monthly Disbursement Date, to the Debt Service Reserve Fund one-sixth (1/6) of the amount required, if any, under the Agreement, for amounts therein to be equal to the Debt Service Reserve Fund Requirement;

FOURTH: on the last Business Day of every Rebate Year and continuing until the full amount is so paid, to the Rebate Fund, any amount, as calculated by the Rebate Analyst, required of the Borrower to be deposited in the Rebate Fund;

FIFTH: within one Business Day after each Monthly Disbursement Date, commencing in May, 2007, to the Repair and Replacement Fund, an amount equal to the Repair and Replacement Fund Requirement which will not exceed $25,000 per year, or as required to replenish a disbursement from the Repair and Replacement Fund, all as further described below under “Repair and Replacement Fund”; and

SIXTH: within one Business Day after each Monthly Disbursement Date, commencing in May, 2007, all amounts remaining on deposit in the Revenue Fund after the Trustee has made the disbursements required in FIRST through FIFTH above, to the Borrower, if no Event of Default has occurred and is continuing. The Borrower shall pay all Operating Expenses, or transfer amounts to the School to pay its Operating Expenses from such amounts.

Debt Service Reserve Fund

A Debt Service Reserve Fund is established under the Agreement with the Trustee for the sole benefit and security of the Holders of the Bonds and moneys or Permitted Investments shall be deposited therein as provided in the Agreement. The Debt Service Reserve Fund shall initially be funded as in the amount of $719,000. The moneys in the Debt Service Reserve Fund and any investments (or other security) held as a part of such Fund shall be held in trust and, except as otherwise provided, shall be applied by the Trustee solely to the payment of the principal (including sinking fund installments) of and interest on the Bonds.

Interest and other income received on investments of Debt Service Reserve Fund moneys shall be transferred to the Bond Interest Fund so long as the Debt Service Reserve Fund is funded to an amount
equal to the Debt Service Reserve Fund Requirement, and shall be credited each month against interest owed by the Borrower hereunder.

**Application of Debt Service Reserve Fund.** Except for certain transfers to the Rebate Fund, moneys in the Debt Service Reserve Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Bonds in the event moneys in the Bond Principal Fund, Bond Interest Fund, and Working Capital Fund are insufficient to make such payments when due, whether on an Interest Payment Date, sinking fund redemption date, maturity date or otherwise. Upon the occurrence of an Event of Default hereunder and the exercise by the Trustee of the remedies specified in the Agreement, any moneys in the Debt Service Reserve Fund shall be transferred by the Trustee to the Bond Interest Fund, and with respect to any moneys in excess of the amount required to be transferred to the Bond Interest Fund, to the Bond Principal Fund and applied in accordance with the Agreement. On the final maturity date of the Bonds any moneys in the Debt Service Reserve Fund may be used to pay the principal of and interest on the Bonds on such final maturity date. In the event of the redemption of the Bonds in whole, any moneys in the Debt Service Reserve Fund shall be transferred to the Bond Principal Fund and applied to the payment of the principal of and premium, if any, on the Bonds.

The Trustee shall value the Permitted Investments in the Debt Service Reserve Fund semiannually on January 1 and June 1 of each year at the lesser of their market value or cost. If on any valuation date the amount in the Debt Service Reserve Fund is greater than the Debt Service Reserve Fund Requirement, such excess shall be transferred by the Trustee to the Bond Interest Fund. If on any valuation date the amount in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the Trustee shall immediately notify the Borrower in writing of the amount of such deficit and request that the Borrower deposit with the Trustee such amount within five Business Days of its receipt of such notice.

Within five Business Days of any transfer of funds from the Debt Service Reserve Fund to the Bond Principal Fund or the Bond Interest Fund because of a deficiency therein, the Trustee shall give written notice to the Borrower of such transfer and of the amount of the deficiency, if any, of amounts then on deposit in the Debt Service Reserve Fund as of such date and request that the Borrower deposit with the Trustee an amount equal to such deficiency no later than six months from the date its receipt of such notice in six equal monthly installments.

Amounts on deposit in the Debt Service Reserve Fund shall be: (a) held in trust solely for the benefit of the Registered Owners and the Beneficial Owners; (b) be applied only in accordance with the provisions of this Agreement; and (c) the Borrower shall have no legal, equitable nor reversionary interest in, or right to, such amounts. In the event of any Act of Bankruptcy by the Borrower, the Borrower shall in no event assert, claim or contend that any portion of the Debt Service Reserve Fund is property of its bankruptcy estate as defined by 11 U.S.C. § 541. See Appendix C — “The Loan and Trust Agreement-Debt Service Reserve Fund.”

Under certain conditions the Borrower may fulfill its obligations to fund the Debt Service Reserve Fund by depositing a Debt Service Reserve Fund Credit Facility therein. See Appendix C —”The Loan and Trust Agreement-Debt Service Reserve Fund.”

**Bond Principal Fund and Bond Interest Fund**

A Bond Principal Fund and a Bond Interest Fund are established under the Agreement with the Trustee for the sole benefit and security of the Holders of the Bonds. There shall be deposited into the Bond Principal Fund or the Bond Interest Fund, as appropriate, as and when received (a) disbursements from the Revenue Fund and payments of debt service by the Borrower, (b) moneys transferred from the
Debt Service Reserve Fund, (c) all other moneys deposited therein pursuant to the Agreement and (d) all other moneys received by the Trustee when accompanied by directions from an authorized representative of the Borrower (not inconsistent with the Agreement) that such moneys are to be paid therein. Interest and other income received on investment of moneys in the Bond Principal Fund and Bond Interest Fund shall be retained therein. Except as provided with respect to deposits in the Rebate Fund and upon an Event of Default, moneys in the Bond Principal Fund shall be used solely for the payment of the principal of and premium, if any, on the Bonds as due, and moneys in the Bond Interest Fund shall be used solely for the payment of the interest on the Bonds as due.

Repair and Replacement Fund

The Repair and Replacement Fund will be initially funded with a deposit of $100,000 from the School. Commencing in May, 2007, and monthly thereafter, the Borrower shall cause to be deposited into the Repair and Replacement Fund an amount equal to $2,084 until such time as the balance thereof is equal to $200,000. Moneys in the Repair and Replacement Fund shall be disbursed by the Trustee: (a) to the Borrower or to the Borrower’s order to pay (i) the cost of improvements to the Project, (ii) replacement or repair of equipment or other components of the Project and (iii) to purchase additional equipment for the Project; and (b) to pay principal and interest on the Bonds to the extent payments by the Borrower are insufficient therefor. In the event the Borrower delivers a certificate of an Authorized Officer to the effect that the Borrower’s annual budget for any Fiscal Year indicates that the amount then on deposit in the Repair and Replacement Fund plus the amounts to be deposited in the Repair and Replacement Fund during such Fiscal Year are insufficient to pay all amounts required for projected ordinary and extraordinary maintenance and replacement expenses incurred in connection with the Project, the Repair and Replacement Fund Requirement shall be adjusted to an amount equal to the amount of Borrower’s projected ordinary and extraordinary maintenance and replacement expenses as reflected in Borrower’s annual budget for such Fiscal Year, but in no event will the balance of the Repair and Replacement Fund exceed $200,000.

The Borrower shall cause any disbursement from the Repair and Replacement Fund to be replenished in 36 equal monthly installments commencing with the month next succeeding such disbursement.

Other Funds under the Agreement

A Project Fund and Rebate Fund are also established with the Trustee under the Agreement. See Appendix C – “Loan and Trust Agreement” for a summary of each of these Funds and the application of moneys held therein.

Additional Indebtedness and Operating Lease Obligations

Under certain circumstances, the Authority may issue Parity Bonds or Subordinated Obligations under the Agreement and the Borrower may incur Parity Debt or Subordinated Obligations. Such Parity Debt may include the scheduled payments under Interest Rate Hedges permitted by the Agreement. See Appendix C – “Loan and Trust Agreement - Issuance of Obligations,” and “- Limitations on Incurrence of Additional Debt; Security.”

Financial Covenants.

**Historic Debt Service Coverage Ratio.** The School covenants to achieve a Historical Debt Service Coverage Ratio of at least 1.10 for each Fiscal Year, beginning with the Fiscal Year ending June 30, 2007.

**Unrestricted Cash Balance.** The School covenants and agrees to maintain an unrestricted cash
balance as of the end of each Fiscal Year, as shown on its annual audited financial statements, of at least 5% of its Operating Expenses for the prior Fiscal Year (not including debt service).

**Failure to Meet Financial Covenants.** If for any Fiscal Year, the School fails to comply with the Historic Debt Service Coverage Ratio and/or Unrestricted Cash Balance covenants described above, the School (at the School’s sole expense) shall engage a Management Consultant (with notice of the engagement to the Trustee), which shall deliver a written report to the School and the Trustee containing recommendations concerning the School’s: (i) operations; (ii) investment management practices; (iii) fundraising activities; and (iv) other factors relevant to meeting the applicable financial covenants for the Fiscal Year ending on the next succeeding Annual Evaluation Date. Within 45 days after its engagement, the Management Consultant will submit its consultant report, together with a certificate of the School indicating the School’s substantial acceptance or rejection of all or any material portion of the recommendations of the Management Consultant, to the Trustee. So long as the School engages a Management Consultant as required above and accepts and continuously and substantially complies with the recommendations of the Management Consultant, failure to comply with the Historic Debt Service Coverage Ratio and/or Unrestricted Cash Balance covenants described above for such Fiscal Year will not in and of itself constitute an Event of Default unless, in the case of the Historic Debt Service Coverage Ratio covenant, the Historical Debt Service Coverage Ratio for such Fiscal Year was less than 1.00.

**Restrictions on Debt and Operating Lease Obligations.**

The School covenants in the Lease that it will not incur or assume (including the guaranteeing of, or the direct or indirect assumption of liability for, the debts of others) any Debt or Operating Lease Obligations other than as permitted by the Lease. Permitted Debt includes certain Interest Rate Hedges, scheduled payments under which may be accrued on a parity with payments under the Lease. See Appendix C - - “Lease - Restrictions on Debt and Operating Lease Obligations.”

The School intends to obtain a credit facility (the “PNC Credit Facility”) from PNC Bank, National Association (“PNC Bank”), an affiliate of the Underwriter, pursuant to which PNC Bank will provide Letters of Credit in the aggregate amount of up to $900,000 to be held by Bensalem Township or other governmental entities as security for the completion of certain site and sewerage improvements which are part of the Project. It is currently anticipated that the PNC Credit Facility will be secured by (i) a deposit of $450,000 in cash with PNC Bank and (ii) a pledge of all Accounts and Revenues of the School on a parity with that granted under the Lease to the Borrower. The PNC Credit Facility will be a Permitted Encumbrance under the Lease.

**THE PROPERTY**

**The Property**

The property consists of four plots of land, along with the improvements thereon (including the Project addition) located at 2400 Bristol Pike, Bensalem, Pennsylvania, and formerly known as the Cornwells Elementary School. The Property itself is a historical building in Bensalem Township. The School has obtained written authorization from the Bensalem Historical Society to proceed with the Project. The facility at 2400 Bristol Pike currently consists of over 53,000 square feet of space utilized solely for the education of children in grades Kindergarten through Eight. The construction of the addition building will provide approximately 26,689 square feet of additional space for educational use, including an indoor gymnasium.
Construction Contract

The Borrower has entered into a construction management agreement (the “Construction Manager Contract”) with BSI Construction, LLC (“BSI”) relating to the construction and renovation of the Project. The Borrower will enter into contracts for the construction and renovation of the Project (the “Construction Contracts”) pursuant to a competitive bidding process. The Construction Contracts are for Demolition; Site Work; Building Concrete and Foundations Masonry; Structural Steel; HVAC; Electrical; Plumbing; Fire Suppression; Elevators; Carpentry; Painting; and Miscellaneous General Trades. Each Construction Contract is a guaranteed maximum price contract. The bidding documents require that each Construction Contract will provide that the work will be substantially completed within ten (10) months of the commencement of construction.

The contractors must comply with the Pennsylvania Prevailing Wage Act, 43 P.S. 165-1 etc. Each Construction Contract shall contain such terms and provisions as are required by the Act or applicable regulations which terms and provisions shall be made a part of and included in all subcontracts.

All references to the Construction Contracts are qualified in their entirety by reference to the Construction Contracts, copies of which are available for review, will be provided upon written request to the Trustee and should be read in their entirety. No attempt has been made to summarize the Construction Contracts.

Appraisal

McKay Realty Consultants (the “Appraiser”) in its report dated as of March 17, 2006, updated June 12, 2006 (the “Appraisal”), has provided its appraisal of the market value in the fee simple estate of the site improvements to the Land and the School Buildings, assuming completion of the Project.

The Appraisal was prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP); provided that only the Sales Comparison Approach was considered. The market value opinion in the Appraisal is qualified by certain assumptions, limiting conditions, definitions and a certification, which are set forth in the Appraisal. The Appraiser is of the opinion that the market value of the fee simple estate, as of August 1, 2007, following completion of the Project, is $9,075,000. All references to the Appraisal are qualified in their entirety by reference to the Appraisal, a copy of which is available for review, will be provided upon written request to the Trustee and should be read in its entirety. No attempt has been made to summarize the Appraisal.

Environmental Assessment

Eagle Industrial Hygiene Assoc., Inc. (“Eagle”) has conducted a Phase I Environmental Site Assessment (the “Environmental Site Assessment”) of the site currently comprising the Land, the Existing Building and the New Building to be constructed thereon in conformance with the scope and limitations of ASTM Practice E 1527. The Environmental Site Assessment did not reveal evidence of recognized environmental conditions on the site and concluded that no Phase II Assessment was recommended. The Environmental Site Assessment noted that there were small quantities of asbestos present at the site and likely quantities of lead paint on interior and exterior walls and PCBs and mercury in lighting fixtures and transformers, for which applicable precautions should be taken during renovations.

All references to the Environmental Site Assessment herein are qualified in their entirety by reference to the Environmental Site Assessment, a copy of which is available for review, will be provided
upon request by the Underwriter prior to the issuance of the 2007 Bonds, thereafter from the Trustee upon written request and should be read in its entirety.

**CHARTER SCHOOLS**

**General**

A charter school is an independent, nonsectarian public school established and operated under a charter from the Board of School Directors of the school district in which it is located that provides instruction to any of grades kindergarten through 12. A charter school is usually created or organized by a combination of teachers, parents and community leaders or a community-based organization. Specific goals and operating procedures for charter schools are detailed in an agreement or “charter” between the host school district or other sponsoring board and the charter school organizers. Charter schools in Pennsylvania are created pursuant to Act 22.

According to Act 22, the purpose of a charter school is to permit the establishment and maintenance of schools that operate independently from the existing school district structure to accomplish the following:

- Improve pupil learning;
- Increase learning opportunities for all pupils;
- Encourage the use of different and innovative teaching methods;
- Create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site;
- Provide parents and pupils with expanded choices in the types of educational opportunities that are available within the public school system; and
- Hold the charter schools accountable for meeting measurable academic standards and provide the charter schools with a method to determine accountability systems.

Charters are effective in Pennsylvania for a period of no less than three (3) years and no more than five (5) years and may be renewed for five (5) year periods.

**Elements of a Charter Application**

Each charter application, at a minimum, must contain all of the following information:

- The name of the charter applicant;
- The name of the proposed charter school;
- Grade or age levels served by the charter school;
- Proposed governance structure of the charter school;
- Mission statement and educational goals of the charter school;
- Admissions policy;
- Procedures regarding suspension and expulsion of pupils;
- Information on the manner in which community groups will be involved in the charter school planning process;
- Financial plan for the charter school;
- Procedures for review of parent complaints;
• Description and address of the physical facility and the ownership thereof or lease arrangements;
• School calendar;
• Proposed faculty and professional development plan for the faculty;
• Agreements with school district regarding extracurricular activities;
• Criminal history of all individuals who have direct contact with students;
• Child abuse clearance certificate for all individuals who have direct contact with students; and
• Details of insurance to be provided.

Charter Renewal or Termination

A charter may be renewed for five (5) year periods upon reauthorization by the charter school’s school district. No additional approvals from any local Board of Education or any other State Agency are required under the Act 22 for any such renewal or extension. The original Charter Agreement for the School was approved by the Bensalem Township School District (the “School District”) on June 24, 1998. The School received a five (5) year charter renewal on June 25, 2003, effective with the new academic year September 1, 2003 and continuing for the five (5) year period ending August 31, 2008.

Act 22 provides that the School District has the authority to not renew or revoke a charter based upon any of the following:
• One or more material violations of any of the conditions, standards or procedures contained in the written charter signed pursuant to Section 1720-A of Act 22;
• Failure to meet the requirements for student performance contained in 22 Pa Code Ch. 5 (relating to curriculum) or subsequent regulations promulgated to replace 22 Pa Code Ch. 5 or failure to meet any performance standard set forth in the written charter signed pursuant to Act Section 1716-A;
• Failure to meet generally accepted standards of fiscal management or audit requirements;
• Violation of provisions of Act 22;
• Violation of any provision of law from which the charter school has not been exempted, including Federal laws and regulations governing children with disabilities; or
• The charter school has been convicted of fraud.

If the Board of School Directors of the Chartering District considers nonrenewal or termination of the School’s charter, the chartering district must provide the charter school with a public hearing before a formal decision is made. The charter school has an opportunity to present evidence at such hearing. The charter school may then appeal an adverse decision of the local school district to the State Charter School Appeal Board. The charter remains in effect until final disposition is made by the State Charter School Appeal Board. All decisions of the State Charter School Appeal Board are subject to review by the Commonwealth Court.

Funding for Charter Schools

Charter schools do not charge tuition, but instead receive funding from the school district in which each charter school student lives based on a statutory formula. The following table sets forth for the school years shown below the highest and lowest per pupil payment that the School receives from the school districts for resident students at the School and the per pupil payments from Bensalem Township
School District and Philadelphia School District (which are the school districts with 49% and 41% of students, respectively, at the School for the 2006-2007 school year):

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<thead>
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<tr>
<td>Bensalem Township School District</td>
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<tr>
<td>Regular Education</td>
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<td></td>
</tr>
<tr>
<td>Regular Education</td>
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<td>$6,544</td>
<td>$7,101</td>
<td>$7,248</td>
</tr>
<tr>
<td>Special Education</td>
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<td>$13,063</td>
<td>$14,309</td>
<td>$15,346</td>
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<tr>
<td>Highest School District</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Regular Education</td>
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<tr>
<td>Special Education</td>
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<tr>
<td>Lowest School District</td>
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<tr>
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<td>Special Education</td>
<td>$12,032</td>
<td>$13,063</td>
<td>$14,309</td>
<td>$15,346</td>
</tr>
</tbody>
</table>

Charter schools are also eligible to receive revenues from sources other than the school district per-pupil allocation. Such funding includes grants or other subsidies from the federal government. In 2005-2006, the School received approximately $387,953 in government grant money.

Under Act 22, school districts are required to make payments to the charter school in twelve equal monthly payments by the fifth day of each month within the operating school year. If the school district fails to make a payment to the charter school, the Secretary of Education of the Commonwealth will deduct the amount of such failed payment from any and all state payments made to such school district after receipt of documentation from the charter school and pay the amount directly to the charter school. The School received one late payment in July 2001 when the School District did not receive certain scheduled cash advances from the Commonwealth. The School’s payments were received within 30 days of their due date.

THE BENSALEM TOWNSHIP SCHOOL DISTRICT

The School District is located in southeastern Pennsylvania, just outside Philadelphia, covering approximately 21 square miles with a school enrollment of approximately 6,000 students. A population of approximately 60,000 resides in such communities of Bensalem Township as Andalusia, Bensalem, Neshaminy Valley, Oakford and Trevose. The School District has six elementary schools for grades K-5, two middle schools, grades 6-8, and a high school, grades 9-12. The School District employs over 900 people and is currently financed by an operating budget of $95.8 million.

BONDOHOLDERS’ RISKS

Investment in the 2007 Bonds involves substantial risks. The following information should be considered by prospective investors in evaluation of the 2007 Bonds. However, the following does not purport to be an exclusive listing of risks and other considerations which may be relevant to investing in the 2007 Bonds, and the order in which the following information is presented is not intended to reflect the relative importance of any such risks. Other factors which could result in a reduction of revenues available to the Borrower and a corresponding reduction in payments made to the Authority by the Borrower are discussed herein. The Authority has no taxing power.

Nature of Limited Obligations

The 2007 Bonds are limited obligations of the Authority, payable solely from amounts pledged under the Agreement for the payment of principal, interest and premium, if any, on the 2007 Bonds (which includes payments from the School pursuant to the Lease). Other than the payments received under the Agreement, the Authority is not liable for any payments due with respect to the 2007 Bonds of
either principal or interest, and the Authority has no legal or moral obligation to make any appropriation of taxes or other amounts for such payments.

**Dependence on Borrower's Ability to Pay under the Agreement; Ability of School to Pay Lease Payments**

Payment of principal of, premium, if any, and interest on the 2007 Bonds is intended to be made from payments by the Borrower under the Agreement from lease payments received from the School under the Lease, which constitutes the primary, though not sole, source of revenues for the Borrower.

The School’s ability to make payments under the Lease is largely dependent on its revenues received from the School District, which amounts are set by the Commonwealth. There is no assurance that the amounts set by the Commonwealth may not be decreased. Such a decrease could materially adversely affect the ability of the School to make rental payments sufficient to pay debt service on the 2007 Bonds by the Borrower.

In addition, charter schools are eligible to receive revenues from other sources, including the federal government. See Appendix A. In addition, some of these funding sources may contain limitations on the uses of such revenues which could prevent those funds from being used to make payments under the Lease. Any decrease in such funding could have a materially adverse effect on the ability of the School to make rental payments under the Lease.

Under Act 22, school districts are required to make payments to the charter school in twelve equal monthly payments by the fifth day of each month within the operating school year. If the school district fails to make a payment to the charter school, the Secretary of Education of the Commonwealth will deduct the amount of such failed payment from any and all state payments made to such school district after receipt of documentation from the charter school and pay the amount directly to the charter school. The School received one such late payment in July, 2001 when the School District did not receive certain scheduled cash advances from the Commonwealth. The School’s payments were received within 30 days of their due date. There can be no assurance that such delays in payment will not occur again, and materially adversely affect the School’s ability to make rental payments sufficient to pay debt service on the 2007 Bonds.

Currently projected revenues and expenditures of the School are no guaranty as to future revenue and expenditures of the School. There is also no assurance that the regulatory and statutory scheme governing the funding, operation and management of charter schools may not be changed by the Pennsylvania Department of Education or the state legislature in such a way that would materially and adversely affect the ability of the Borrower to make payments under the Agreement or of the School to make payments under the Lease.

**Non-Renewal or Termination of Charter Agreement**

Under the provisions of Act 22, the Charter Agreement between the School and the School District must be renewed and extended every five years for the School to stay in operation. However, no additional approvals from any local Board of Education or any other State Agency are required under Act 22 for any such renewal or extension. The original Charter Agreement for the School was entered into on June 24, 1998 and was renewed for a five-year period commencing September 1, 2003. The School District has been given the authority not to renew or revoke a charter based upon any of the following grounds: (1) one or more material violations of any of the conditions, standards or procedures contained in the written charter signed pursuant to Section 1720-A of Act 22; (2) failure to meet the requirements for student performance set forth in 22 Pa. Code Ch. 5 (relating to curriculum) or subsequent regulations
promulgated to replace 22 Pa. Code Ch. 5 or failure to meet any performance standard set forth in the written charter signed pursuant to Section 1716-A of the Act 22; (3) failure to meet generally accepted standards of fiscal management or audit requirements; (4) violations of the provisions of Act 22; (5) violations of any provision of law from which the School has not been exempted, including Federal laws and regulations governing children with disabilities; or (6) the School has been convicted of fraud. See “CHARTER SCHOOLS” and “THE BENSALEM TOWNSHIP SCHOOL DISTRICT” herein.

Although the School expects that the Charter Agreement will be renewed and extended for the term of the 2007 Bonds, no assurance can be given that the School District or its successors will continue to renew the Charter Agreement.

Income and Property Tax Exemption

Under present federal and Pennsylvania law, regulations and rulings, the income and revenue of nonprofit, 501(c)(3) Organizations are exempt from federal and State income tax, except for any unrelated business income as defined in the Code, and their revenues are exempt from the State sales tax except for certain services. The Borrower is a Pennsylvania nonprofit corporation and has received a determination letter from the Internal Revenue Service that it is a 501(c)(3) Organization. The School is also a nonprofit corporation and has received a determination letter from the Internal Revenue Service that it is also a 501(c)(3) Organization.

The federal tax-exempt status of the 2007 Bonds presently depends upon the maintenance by the Borrower and the School of their status as 501(c)(3) Organizations. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions which may cause their assets to inure to the benefit of private individuals. See “TAX MATTERS” and Appendix D.

The Borrower believes that the School Buildings will be granted an exemption from real estate taxes. The Borrower has not provided for the payment of real estate taxes in the financial statements contained in Appendix B. However, no assurance can be given that the School Buildings will be granted exemption or that any future change in exempt status would not have a material adverse effect on the Borrower.

Factors That Could Affect the Future Financial Condition of the Borrower and the School

The future financial condition of the Borrower and the School could be affected adversely by, among other things, legislation, regulatory actions, increased competition from other schools, changes in demand for public and private education, the ability of the School to provide the educational services and classes demanded by parents or to attract students generally, changes in the level of confidence in the public school system, education costs, demographic changes and litigation. Some of such changes might include the following:

Continued Utilization of the Facilities of the School, Competition. A significant portion of the School's revenues are derived based on the number of students enrolled in the education facilities of the School. The School faces competition from other educational facilities and could face additional competition in the future as a result of the construction of new public schools, other public (charter) schools or parochial schools in the area. No assurance can be given that the enrollment of the School will not be adversely affected by the availability of other educational facilities in the service areas of the School and elsewhere. In addition, the amount of compensation that the School receives per student is
Educational Industry Factors Affecting the School. The educational industry is highly dependent on a number of factors which may limit the ability of the School to meet its obligations under the Lease and consequently the Borrower’s obligations under the Agreement. Among other things, participants in the educational industry are subject to significant regulatory requirements of federal, State and local governmental agencies and independent professional organizations and accrediting bodies, and various competitive factors.

The following factors, among others, may also adversely affect the operation of the School, to an extent that cannot be determined at this time:

- cost and availability of insurance in the Commonwealth;
- increased costs of attracting and retaining or decreased availability of a sufficient number of teachers;
- increased costs resulting from unionization of the employees of the facilities of the School or the utilization by non-union employees of the facilities of the School as may be permitted under the National Labor Relations Act; and
- the facilities owned by the Borrower are composed of special-purpose facilities which are not suitable for industrial or commercial use; consequently, it could be difficult to find a buyer or lessee for such facilities if it were necessary for the Borrower to raise funds by selling any of its assets in order to repay its indebtedness.

Value of Mortgaged Property

Security for the 2007 Bonds includes mortgage liens on property evidenced by the Mortgage in favor of the Trustee. Attempts to foreclose under the Mortgage may be met with protracted litigation and/or bankruptcy proceedings, which could cause delays. Thus, there can be no assurance that upon the occurrence of an Event of Default, the Trustee will be able to obtain possession of the property and generate revenue therefrom in a timely fashion. Because of the special nature, location, regulatory restrictions and other factors relating to the property, there can be no assurance that proceeds derived from the use of the property upon default and foreclosure of the Mortgage would be sufficient to pay all amounts due in respect of the 2007 Bonds. See Appendix A -- “Appraised Value of the Property.” Furthermore, the Mortgage allows Permitted Encumbrances. See Appendix C – “The Mortgage.”

Construction Risks

Construction, renovation and rehabilitation improvements of any facility are subject to the risks of cost overruns and delays due to a variety of factors including, among other things, site difficulties, labor strife, delays in and shortages of materials, weather conditions, fire and casualty, obtaining necessary approvals and permits and compliance with public bidding requirements. Non-completion of the Project would materially adversely affect the value of the security under the Mortgage. To reduce construction risks, the Construction Contracts provide for a guaranteed maximum price. The bidding documents for the Construction Contracts require substantial completion of the New Building within ten (10) months of the commencement of construction. See “THE PROJECT” above and Appendix A. Such completion date is subject to extension due to delays caused by the Borrower, the architect, change orders, labor disputes, fire, unusual delivery delays, unavoidable casualties or other causes beyond the contractor's control.
Damage or Destruction

Although the Borrower will be required to obtain certain insurance as set forth in the Agreement, there can be no assurance that the Project will not suffer losses for which insurance cannot be or has not been obtained or that the amount of such loss, or the period during which the Project cannot generate revenues will not exceed the coverage of such insurance policies.

Effect of Federal Bankruptcy Laws on Security for the 2007 Bonds

Bankruptcy proceedings and equity principles may delay or otherwise adversely affect the enforcement of Bondholders' rights in the property granted as security for the 2007 Bonds. Furthermore, if the security for the 2007 Bonds is inadequate for payment in full of the 2007 Bonds, bankruptcy proceedings and equity principles may also limit any attempt by the Trustee to seek payment from other property of the Borrower, if any. Also, federal bankruptcy law permits adoption of a reorganization plan, even though it has not been accepted by the holders of a majority in the aggregate principal amount of the 2007 Bonds if the Bondholders are provided with the benefit of their original lien or the “indubitable equivalent.” In addition, if the bankruptcy court concludes that the Bondholders have “adequate protection,” it may (i) substitute other security subject to the lien of the Bondholders, and (ii) subordinate the lien of the Bondholders (a) to claims by persons supplying goods and services to the Borrower after bankruptcy and (b) to the administrative expenses of the bankruptcy proceeding. The bankruptcy court may also have the power to invalidate certain provisions of the Mortgage that make bankruptcy and related proceedings by the Borrower an event of default thereunder.

Secondary Market

The Underwriter may, but is not obligated to, effect secondary market trading in the 2007 Bonds. The Underwriter is not obligated to repurchase any 2007 Bonds at the request of the holders thereof and cannot assure that there will be a continuing secondary market in the 2007 Bonds. In addition, adverse developments, including insufficient cash flow from the Project, may have an unfavorable effect upon prices for the 2007 Bonds in the secondary market.

TAX MATTERS

Tax Exemption-Opinion of Bond Counsel

The Internal Revenue Code of 1986, as amended (the “Code”), contains provisions relating to the tax-exempt status of interest on obligations issued by governmental entities, which apply to the 2007A Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the 2007A Bonds and the rebate of certain investment earnings derived from such proceeds to the United States Treasury Department on a periodic basis. These and other requirements of the Code must be met by the Authority, the Borrower and the School subsequent to the issuance and delivery of the 2007A Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The Authority, the Borrower and the School have made covenants to comply with such requirements.

In the opinion of Bond Counsel, interest on the 2007A Bonds is excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Bond Counsel is subject to the condition that the Authority, the Borrower and the School comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the 2007A Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with all of such requirements could cause the interest on the 2007A Bonds to be
includable in gross income retroactive to the date of issuance of the 2007A Bonds. The Authority, the Borrower and the School have covenanted to comply with all such requirements. Interest on the 2007A Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the 2007A Bonds is a component of a corporate holder’s “adjusted current earnings” a portion of that interest may be subject to the corporate alternative minimum tax. Bond Counsel expresses no opinion regarding other federal tax consequences relating to the 2007A Bonds or the receipt of interest thereon. See discussion of “Alternative Minimum Tax”, “Branch Profits Tax”, “S Corporations with Passive Investment Income”, “Social Security and Railroad Retirement Benefits”, “Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations” and “Property or Casualty Insurance Company” below.

In the opinion of Bond Counsel, under existing laws of the Commonwealth, the interest on the 2007 Bonds is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2007 Bonds or the interest thereon. Profits, gains or income derived from the sale, exchange or other disposition of the 2007 Bonds are subject to state and local taxation in the Commonwealth.

The form of the opinion of Bond Counsel expected to be delivered in connection with the issuance of the 2007 Bonds is set forth in Appendix D hereto.

2007B Bonds - Federal

Interest on the 2007B Bonds is included in gross income for purposes of federal income taxation.

Alternative Minimum Tax

The Code includes, for purposes of the corporate alternative minimum tax, a preference item consisting of, generally, seventy-five (75%) percent of the excess of a corporation’s “adjusted current earnings” over its “alternative minimum taxable income” (computed without regard to this particular preference item and the alternative tax net operating loss deduction). Thus, to the extent that tax-exempt interest (including interest on the 2007A Bonds) is a component of a corporate holder’s “adjusted current earnings” a portion of that interest may be subject to an alternative minimum tax.

Branch Profits Tax

Under the Code, foreign corporations engaged in a trade or business in the United States will be subject to a “branch profits tax” equal to thirty percent (30%) of the corporation’s “dividend equivalent amount” for the taxable year. The term “dividend equivalent amount” includes interest on tax-exempt obligations.

S Corporations with Passive Investment Income

Section 1375 of the Code imposes a tax on the income of certain small business corporations for which an S Corporation election is in effect, and that have “passive investment income”. For purposes of Section 1375 of the Code, the term “passive investment income” includes interest on the 2007A Bonds. This tax applies to an S Corporation for a taxable year if the S Corporation has Subchapter C earnings and profits at the close of the taxable year and has gross receipts, more than twenty-five percent (25%) of which are “passive investment income”. Thus, interest on the 2007A Bonds may be subject to federal income taxation under Section 1375 of the Code if the requirements of that provision are met.
Social Security and Railroad Retirement Benefits

Under Section 86 of the Code, certain Social Security and Railroad Retirement benefits (the “benefits”) may be includable in gross income. The Code provides that interest on tax-exempt obligations (including interest on the 2007A Bonds) is included in the calculation of “modified adjusted gross income” in determining whether a portion of the benefits received are to be includable in gross income of individuals.

Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations

The Code, subject to limited exceptions, denies the interest deduction for indebtedness incurred or continued to purchase or carry tax-exempt obligations, such as the 2007A Bonds. With respect to banks, thrift institutions and other financial institutions, the denial to such institutions is in general one hundred percent (100%) for interest paid on funds allocable to the 2007A Bonds.

Property or Casualty Insurance Company

The Code also provides that a property or casualty insurance company may also incur a reduction, by a specified portion of its tax-exempt interest income, of its deduction for losses incurred.

This summary is based on laws, regulations, rulings and decisions now in effect, all of which may change. Any change could apply retroactively and could affect the continued validity of this summary. Prospective purchasers should consult their tax advisors about the consequences of purchasing or holding the 2007 Bonds.

RATING

Standard & Poor's Ratings Services (“Standard & Poor’s) is expected to assign its municipal bond ratings of “BBB” to the 2007 Bonds. Any desired explanation of the significance of such ratings should be obtained from Standard & Poor's. There is no assurance that a particular rating will pertain for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the rating agency furnishing such rating, circumstances so warrant. Any downward revision or withdrawal of any such ratings could have an adverse effect on the market price of the Series 2007 Bonds.

There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by Standard & Poor’s, if in the judgment of Standard & Poor’s, circumstances so warrant. Any such downward revision, qualification or withdrawal of the ratings can be expected to have an adverse effect on the market price of the Series 2007 Bonds.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the 2007 Bonds are the subject of a legal opinion, by Latsha Davis Yohe & McKenna, P.C., Exton, Pennsylvania, Bond Counsel, the proposed form of which is attached hereto as Appendix D. Certain legal matters will be passed upon for the Borrower and the School by their counsel, Latsha Davis Yohe & McKenna, P.C., Exton, Pennsylvania; for the Authority by its counsel, Begley, Carlin & Mandio, LLP, Langhorne, Pennsylvania, and for the Underwriter by its counsel, Cozen O’Connor, Philadelphia, Pennsylvania.
ABSENCE OF MATERIAL LITIGATION

The Authority

There is no litigation of any nature pending or threatened against the Authority at the date of this Official Statement to restrain or enjoin the issuance, sale, execution or delivery of the 2007 Bonds, or in any way contesting or affecting the validity of the 2007 Bonds, any proceedings of the Authority taken with respect to the issuance or sale thereof, the pledge or application of any money or the security provided for the payment of the 2007 Bonds, or the existence or powers of the Authority.

The Borrower and the School

Currently neither the Borrower nor the School is involved in any pending, or to the knowledge of the Borrower and the School, threatened, litigation matters or disputes which, if determined adversely to the Borrower or the School, would have a material adverse affect on its financial condition or affect the ability of the Borrower to make payments under the Agreement or of the School to make payments under the Lease.

CONTINUING DISCLOSURE

The Securities and Exchange Commission (the “SEC”), pursuant to the Securities Exchange Act of 1934, as amended and supplemented (the “Securities Exchange Act”) has adopted amendments to its Rule 15c2-12 (“Rule 15c2-12”) effective July 3, 1995 which generally prohibit a broker, dealer, or municipal securities dealer (“Participating Underwriter”) from purchasing or selling municipal securities, such as the Bonds, unless the Participating Underwriter has reasonably determined that an issuer of municipal securities or an obligated person has undertaken in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information and event notices to various information repositories.

The Borrower and the School have entered into a Disclosure Dissemination Agent Agreement (“Disclosure Dissemination Agreement”) for the benefit of the Holders of the Bonds with Digital Assurance Certification, L.L.C. (“DAC”), under which the Borrower and the School have designated DAC as Disclosure Dissemination Agent to provide the annual financial information and event notices regarding the Borrower and the School to various information repositories as required by Rule 15c2-12. The form of Disclosure Dissemination Agreement is attached as Appendix E.

Because the 2007 Bonds will be special obligations of the Authority, the Authority is not an “obligated person” for purposes of Rule 15c2-12 and has no continuing obligations thereunder. Accordingly, the Authority will not provide any continuing disclosure information with respect to the 2007 Bonds or the Authority.

CERTIFIED PUBLIC ACCOUNTANTS

The financial statements of the School included in Appendix B of this Official Statement have been audited by Kreischer Miller and Hege Kramer Connell Murphy & Goldkamp, P.C. (which has been merged into Kreischer Miller), independent certified public accountants, in each case to the extent and for the periods indicated in the reports which appear in Appendix B.
UNDERWRITING OF THE 2007 BONDS

The 2007 Bonds are being purchased for reoffering by PNC Capital Markets (the “Underwriter”). The Underwriter has agreed to purchase all of the 2007 Bonds at a purchase price of $11,102,250, which reflects the par amount of the 2007 Bonds, less an underwriter’s discount of $197,750.

The obligation of the Underwriter to accept delivery of the Bonds is subject to various conditions contained in the purchase contract. The purchase contract provides that the Underwriters will purchase all of the Bonds if any are purchased. The Bonds may be offered and sold to certain dealers, banks and others at prices lower than the initial offering prices, and such initial offering prices may be changed from time to time by the Underwriter.

QUALIFIED INSTITUTIONAL BUYER CERTIFICATION

Each initial purchaser of the 2007 Bonds will be required to sign a certification stating that such purchaser is a "qualified institutional buyer" as defined in Rule 144A of Regulation D promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended, or an “accredited investor” within the meaning of Rule 501 of Regulation D promulgated under such Securities Act. A form of such certification is attached to this Official Statement as Appendix F.

MISCELLANEOUS

The foregoing summaries of the provisions of the 2007 Bonds, the Agreement, the Lease, the Mortgage, the School Buildings, the Borrower, the School, the Appraisal, the Construction Contract, the Environmental Assessment, summaries of certain provisions of such documents set forth in Appendix C to this Official Statement, and all other summaries and references to other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof and do not constitute complete statements of such documents relating to such matters, copies of which will be furnished by the Trustee upon request. Insofar as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are made merely as such and not as representations of fact.

Appendices A, B, C, D, E and F attached to this Official Statement are hereby expressly incorporated herein as a part hereof. This Official Statement, issued by the Authority, has been duly approved by the Authority, the Borrower and the School, and the Authority, the Borrower and the School have authorized its distribution in connection with the underwriting of the 2007 Bonds. This Official Statement is not to be construed as a contract or agreement between the Authority, the Borrower or the School and the purchasers or holders of any 2007 Bonds.
The execution and delivery of this Official Statement have been authorized by the Authority, the Borrower and the School.

BUCKS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

By: /s/ Harry W. Fawkes
Title: Chairman

SCHOOL LANE FOUNDATION

By: /s/ Anna Marie DelCasale
Title: President

SCHOOL LANE CHARTER SCHOOL

By: /s/ Peter Hyams
Title: President
APPENDIX A

THE BORROWER, THE SCHOOL AND THE PROJECT
THE BORROWER

The Borrower was incorporated as a Pennsylvania nonprofit corporation on March 21, 2005 to operate exclusively for the support and benefit of the School. The Borrower is governed by a Board of Trustees whose members include Ms. Anna Marie DelCasale, Mr. Matthew Takita, Ms. Kathleen Lodise, the Treasurer of the Board of Trustees of the School, and Peter Hyams, the President of the Board of Trustees of the School.

Ms. DelCasale currently serves as the President of the Board of Trustees of the Borrower. Ms. DelCasale is currently employed as a Strategic Planner for Philadelphia Gas Works (“PGW”), and has a Master of Science in Information Systems from Drexel University and a Bachelor of Arts in Mathematics from Temple University. Ms. DelCasale has three daughters, two of which have graduated from the School and one who is still in attendance.

Mr. Takita is the Vice President of the Borrower and is an Architect with Architectural Management, Stanley W. Tasey, AIA. Mr. Takita also serves as Bensalem Township Director of Building and Planning. Mr. Takita has extensive experience working within and with Bensalem Township for large scale construction projects. Mr. Takita has three children who attend the School.

Ms. Lodise serves as the Secretary of the Borrower, as well as the Treasurer of the Board of Trustees of the School. Ms. Lodise is a Respiratory Therapist currently working with Capital Health System’s Helene Fuld Campus. Ms. Lodise has a daughter who attends the School.

Mr. Hyams serves as a member of the Board of Trustees for the Borrower, as well as the President of the Board of Trustees of the School. Mr. Hyams has received his Doctorate in Pharmaceutical Sciences at Temple University.

It is expected that substantially all of the Borrower’s income will be derived from lease payments by the School. The Borrower intends to engage in fundraising work, but has not yet developed any specific programs. The Borrower has employed a Development Officer to oversee and conduct its fundraising efforts. This is the Borrower’s only employee.

THE SCHOOL

Introduction

The School was incorporated as a Pennsylvania nonprofit corporation on March 12, 1998 as the “Mosaica Academy Charter School”. The School’s original charter was

The School opened in the 1998-1999 school year with four hundred and fifty (450) students enrolled in kindergarten through 6th grade. By August 2000, the School had five hundred and twenty three (523) students enrolled in kindergarten through 8th grade. The School has increased enrollment by twenty three (23) students to total five hundred and forty seven (547) for the 2006-2007 school year. The School is located at 2400 Bristol Pike in Bensalem Township, Pennsylvania.

Mission Statement

The mission of the School is “to create a sanctuary where all members of the learning community are partners and show by example their commitment to high achievement, lifelong and active learning, diversity and equity, and collaborative problem solving.” The School’s focus is to foster academic achievement for all children in a safe environment, thereby setting the stage for the students to confidently discover themselves, the world around them and their place in it. The School’s educational goals are to prepare students to use essential literacy skills within all academic disciplines as well as in lifelong learning.

Guiding Principles

The School’s vision is “of a school whose sole focus is academic achievement for all children in a safe environment. This vision of a safe school is one where every child feels physically, psychologically, socially, and morally safe. Creating and maintaining this safe place for children to learn is a process that requires maintenance, constant monitoring, and diligence by every member of the school community. The importance of providing for children's needs for safety is based on the work of Dr. Sandra Bloom in her book “Creating Sanctuary”. School Lane Charter School students will have the courage to try new things, the courage to learn from their mistakes, and the freedom to become the best that they can be.

By addressing our children's basic needs for safety, we set the stage for them to confidently discover themselves, the world around them, and their place in it. The curriculum combines the best teaching practices, the latest tools of technology, and an interdisciplinary, thematic approach that integrates all areas of curricula and stresses application of knowledge and skills. School Lane students cultivate a multi-cultural perspective, appreciation, and global awareness.
School Lane's objectives include higher standardized test scores, steady improvement in the quality of authentic and performance based assessments, improved student attendance, superior teacher training, as well as enhanced motivation, satisfaction and morale on the part of students, staff, parents, and community members. The school day and academic calendar is extended. Increased learning time allows for greater mastery of curriculum content and for increased exposure to engaging enrichment programs and activities that develop and support the whole student.”

Population Served

The School is located in suburban Philadelphia’s Bensalem Township, a middle-class suburb with a diverse socio-economic composition. The School primarily serves students from the Bensalem School District and the School District of Philadelphia with a small number of students from other local school districts such as the Neshaminy School District. The chart below reflects the distribution of the students per district.

<table>
<thead>
<tr>
<th>Year*</th>
<th>Bensalem</th>
<th>Bristol Boro</th>
<th>Bristol Township</th>
<th>Council Rock</th>
<th>Neshaminy</th>
<th>Other</th>
<th>Philadelphia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-2002</td>
<td>191</td>
<td>1</td>
<td>52</td>
<td>5</td>
<td>16</td>
<td>7</td>
<td>275</td>
<td>547</td>
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<tr>
<td>2002-2003</td>
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<td>47</td>
<td>0</td>
<td>7</td>
<td>8</td>
<td>252</td>
<td>529</td>
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<tr>
<td>2003-2004</td>
<td>215</td>
<td>5</td>
<td>42</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>248</td>
<td>516</td>
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<tr>
<td>2004-2005</td>
<td>234</td>
<td>9</td>
<td>50</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>243</td>
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<td>2005-2006</td>
<td>245</td>
<td>6</td>
<td>48</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>227</td>
<td>536</td>
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<tr>
<td>2006-2007</td>
<td>270</td>
<td>8</td>
<td>38</td>
<td>0</td>
<td>4</td>
<td>5</td>
<td>224</td>
<td>547</td>
</tr>
</tbody>
</table>

*Enrollment figures based on the number of students enrolled as of September 1.

Enhancements to the Academic Program

The enhancements to the Academic Program at the School are:

- Individualized learning plan for every child;
- Foreign Language for all students beginning in Kindergarten;
- High School Spanish for all 8th grade students;
- Algebra 1 for all 8th grade students;
- Computer class beginning in Kindergarten;
- Wireless facility with 3 mobile computer carts;
- Authentic Assessment;
- Full-day Kindergarten;
- Approximately one hour per day more educational time than standard;
• Extended School Year which is 10 days longer than required, as well as an extended school day;
• Strong student accountability;
• Co-teaching for elementary language arts and math instruction;
• Differentiated instruction that provides necessary support for students with special needs and challenges students with exceptional abilities;
• Inclusive school setting; and
• Integrated curriculum focusing on and reinforcing the ideals of Sanctuary with the students, the school community and surrounding.

Organization and Governance

The School was founded by a Founding Committee consisting of parents looking for greater choice in public education, in conjunction with Mosaica Education, Inc. who was retained as a Management Company. Prior to the 2001-2002 school year, the School became self-managed and changed its name to the “School Lane Charter School”.

The School is governed by an independent Board of Trustees (the "Board"). The Board has the ultimate responsibility to determine general, academic, financial and personnel policies in accordance with the School’s bylaws, the Pennsylvania Charter School Law, the laws of the Commonwealth of Pennsylvania and of the United States of America.

Present Officers and Members of the Board of the School

<table>
<thead>
<tr>
<th>Name</th>
<th>Office</th>
<th>Year Elected to Board</th>
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<tbody>
<tr>
<td>Peter Hyams</td>
<td>President</td>
<td>2002</td>
</tr>
<tr>
<td>Christa Barlow</td>
<td>Vice President</td>
<td>2006</td>
</tr>
<tr>
<td>Kathleen Lodise</td>
<td>Treasurer</td>
<td>2003</td>
</tr>
<tr>
<td>Bryan Allen</td>
<td>Secretary</td>
<td>2004</td>
</tr>
<tr>
<td>Jacqueline Liney</td>
<td>Member</td>
<td>2006</td>
</tr>
<tr>
<td>Joseph Cummons</td>
<td>Member</td>
<td>2006</td>
</tr>
</tbody>
</table>

In addition to the above named trustees, there are three (3) vacancies on the Board. The Board expects to fill these vacancies within the next several months.

Administration and Faculty

The School’s Chief Executive Officer, Ms. Karen Schade, is responsible for the day-to-day operation of the School. Ms. Schade has been the Chief Executive Officer of the School since February 2003. Ms. Schade has a Master of Science in Educational Leadership from the University of Pennsylvania and has experience as a mathematics teacher and as a curriculum coordinator.
The School also has a Chief Operating Officer, Mr. George Richards, who has been with the school since March 2003. Mr. Richards formerly served as a Treasury Manager with AAA Mid-Atlantic, Inc. and has a Master of Business Administration and a Master of Science in Taxation.

The School has 81 professional and administrative staff members in the 2006-2007 school year with 22 classroom teachers and 10 learning support teachers which include 7 Special Education, 1 ESL and 2 Title I instructors. The School supports instruction beyond core curriculum with an Art, Music, Physical Education and 2 Spanish teachers. The School employs 8 Teaching Assistants, 3 Cafeteria Staff Members, 2 Full-time Custodians, a Nurse, a Speech Pathologist, a School Psychologist, a Counselor, 3 administrators and 3 administrative assistants. The School’s overall student to teacher ratio is approximately 25 to 1. At the start of the 2006-2007 school year, 100% of the School’s professional staff had valid Pennsylvania certifications.

Student Demographics and Performance

The School opened with 450 students in grades K-6 in 1998. By 2005-2006, the School had an enrollment of 543 students in grades K-8. Though the School’s maximum enrollment is not constrained by its Charter, the School seeks to increase enrollment only by 44 students in order to preserve its student to teacher ratio. The School currently has 547 students in the 2006-2007 school year. Upon completion of the Project, the School’s facilities will have the capacity for a maximum enrollment of 594 students, allowing for the increase in enrollment.

### Historical Average Daily Enrollment

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</tr>
<tr>
<td>7</td>
<td>50</td>
<td>47</td>
<td>49</td>
<td>45</td>
<td>74</td>
<td>76</td>
<td>96</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>47</td>
<td>47</td>
<td>50</td>
<td>48</td>
<td>48</td>
<td>72</td>
<td>73</td>
<td>92</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>450</td>
<td>500</td>
<td>523</td>
<td>542</td>
<td>537</td>
<td>543</td>
<td>549</td>
<td>543</td>
<td>547</td>
</tr>
</tbody>
</table>

* Enrollment numbers are for students actively enrolled in the School as of September 1 of academic year.
Retention Rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrollment</td>
<td>523</td>
<td>542</td>
<td>537</td>
<td>543</td>
<td>549</td>
<td>543</td>
<td>546</td>
</tr>
<tr>
<td>Retained from Previous Year</td>
<td>496</td>
<td>467</td>
<td>487</td>
<td>417</td>
<td>474</td>
<td>447</td>
<td>479</td>
</tr>
<tr>
<td>Retention %</td>
<td>94.8%</td>
<td>86.1%</td>
<td>90.7%</td>
<td>76.8%</td>
<td>86.3%</td>
<td>82.3%</td>
<td>87.8%</td>
</tr>
</tbody>
</table>

*Prior to 2000, the School did not maintain retention records.

Waiting List

Applications for enrollment at the School consistently exceed the number of spaces available at each grade level. Students that cannot be accommodated in a grade are placed on a waiting list should space become available during the school year. Applications for enrollment received during the school year are placed on the waiting list as well. The School’s waiting list is not rolled over each year. Students who were not admitted for the school year must reapply the following school year.

Waiting List History*

<table>
<thead>
<tr>
<th>Grade</th>
<th>2004-05</th>
<th>2005-06</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>K</td>
<td>29</td>
<td>6</td>
<td>33</td>
</tr>
<tr>
<td>1</td>
<td>10</td>
<td>27</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>7</td>
<td>19</td>
<td>25</td>
</tr>
<tr>
<td>3</td>
<td>20</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>4</td>
<td>12</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>0</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>6</td>
<td>17</td>
<td>17</td>
<td>21</td>
</tr>
<tr>
<td>7</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>8</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>95</td>
<td>98</td>
<td>132</td>
</tr>
</tbody>
</table>

*Prior to the 2004 school year, records were not kept for the number of students placed on the Wait List.

Academic Performance

As of 2006, every Pennsylvania student in the 3rd-8th grade, and in the 11th grade is assessed through the Pennsylvania System of School Assessment (PSSA) in reading, math and writing. Because the School began operations in 1998, it has only graduated a limited number of students through the PSSA assessment system, and has only recently been able to track longer-term assessment trends. The School’s performance on the PSSA showed gains in overall performance from year 2003 to 2004 and then a slight drop in scores in the 2005-2006 school year for both 5th and 8th grades. The primary
reason for the decline was an increased enrollment of special needs students. The state calculates the performance of the School by taking a measure of the whole student population, without regard to whether a student requires special attention or services. In 2005, the 5th grade increased its scores in each tested subject and the 8th grade performed better in reading and writing but dropped slightly in math.

The federal No Child Left Behind Act requires all public schools to meet certain targets set by the states. Because the School met those targets, it made Adequate Yearly Progress ("AYP") for 2005-2006 scoring higher than the state average. The School has met AYP standards since the first year of operation. Whether a school makes AYP is currently measured by the following performance indicators:

- 54% of the students are proficient or better in reading;
- 45% of the students are proficient or better in mathematics;
- there is a 90% attendance rate for the K-8 school; and
- there is 95% test participation.

In both the 2004 and 2005 school years, the attendance rate for the School was over 94% across all grades, with 100% participation in the testing. Each tested grade level made or exceeded the state minimums.

**THE PROJECT**

At present, the School owns and operates out of a historical building in Bensalem, PA located at 2400 Bristol Pike in Bensalem, PA. The School also leases classroom and office space located at 2426 Bristol Pike, commonly referred to as the "Annex". It is anticipated that the Annex may continue to serve as office space, or in the alternative, the Annex may be razed to construct a parking area for the School’s use. The issuance of the 2007 Bonds will permit the Borrower to: (1) construct an addition to the existing facility for use as a gymnasium, classrooms and office space; (2) install a modern air conditioning system in the existing facility; and (3) renovate and generally modernize the School.

The Borrower has entered into a Construction Management Agreement with BSI Construction, LLC ("BSI") for BSI to act as the Construction Manager for the 2007 Project. BSI is a Pennsylvania business corporation who specializes in charter school construction projects. Additional information about the Construction Manager Agreement is located in the forepart under "THE PROPERTY – Construction Contracts".

The Borrower will first acquire title to the Property then lease the School Building to the School.
ACCOUNTING MATTERS

The School operates on a fiscal year ending June 30. The financial statements of the School have been prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP). Audited financial statements for the School for the Fiscal Year ended June 30, 2005 and June 30, 2006 are provided in this document as part of Appendix B.
APPENDIX B

SCHOOL LANE CHARTER SCHOOL

BUCKS COUNTY, PENNSYLVANIA

Basic Financial Statements

June 30, 2006
# CONTENTS

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<th>Page</th>
</tr>
</thead>
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<td>Management's Discussion and Analysis (Unaudited)</td>
<td>2-9</td>
</tr>
<tr>
<td><strong>Basic Financial Statements:</strong></td>
<td></td>
</tr>
<tr>
<td>School-Wide Financial Statements:</td>
<td></td>
</tr>
<tr>
<td>Statement of Net Assets</td>
<td>10</td>
</tr>
<tr>
<td>Statement of Activities</td>
<td>11-12</td>
</tr>
<tr>
<td>Fund Financial Statements:</td>
<td></td>
</tr>
<tr>
<td>Governmental Funds:</td>
<td></td>
</tr>
<tr>
<td>Balance Sheet</td>
<td>13</td>
</tr>
<tr>
<td>Reconciliation of Governmental Funds</td>
<td></td>
</tr>
<tr>
<td>Balance Sheet to the Statement of Net Assets</td>
<td>14</td>
</tr>
<tr>
<td>Statement of Revenues, Expenditures, and Changes in Fund Balances</td>
<td>15</td>
</tr>
<tr>
<td>Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities</td>
<td>16</td>
</tr>
<tr>
<td>Proprietary Funds:</td>
<td></td>
</tr>
<tr>
<td>Statement of Net Assets</td>
<td>17</td>
</tr>
<tr>
<td>Statement of Revenues, Expenses and Changes in Fund Net Assets</td>
<td>18</td>
</tr>
<tr>
<td>Statement of Cash Flows</td>
<td>19</td>
</tr>
<tr>
<td>Fiduciary Fund:</td>
<td></td>
</tr>
<tr>
<td>Statement of Net Assets</td>
<td>20</td>
</tr>
<tr>
<td>Notes to Basic Financial Statements</td>
<td>21-32</td>
</tr>
<tr>
<td><strong>Required Supplementary Information</strong></td>
<td></td>
</tr>
<tr>
<td>Budgetary Comparison Schedule – General Fund</td>
<td>33</td>
</tr>
</tbody>
</table>
Independent Auditors' Report on Basic Financial Statements

The Board of Trustees
School Lane Charter School
Bucks County, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of School Lane Charter School, Bucks County, Pennsylvania as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's administration. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the administration, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of School Lane Charter School, Bucks County, Pennsylvania, as of June 30, 2006, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison information on pages 2 through 9 and page 33, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Horsham, Pennsylvania
August 11, 2006

Kreischer Miller
SCHOOL LANE CHARTER SCHOOL

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2006

The discussion and analysis of School Lane Charter School's financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at School Lane Charter School's financial performance as a whole. Please read it in conjunction with the basic financial statements.

Financial Statements

The accompanying financial statements have been prepared in accordance with GASB Statement Number 34 and present both government-wide and fund level financial statements using both accrual and modified accrual basis of accounting respectively.

Financial Overview

For the year ended June 30, 2006, the general fund budget reflected an addition to the unreserved fund balance of $442,580. The actual surplus was $1,124,910 which was $682,330 over budget.

For the year ended June 30, 2006 the government wide financial statement assets totaled $4,900,303 and reflected an increase of $1,065,823 over assets for the year ended June 30, 2005. The majority of the increase can be attributed to higher cash balance generated from the current year surpluses and cost associated to the building expansion project.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 737,575</td>
<td>$ 1,897,015</td>
</tr>
<tr>
<td>Investments</td>
<td>$ 500,000</td>
<td>-</td>
</tr>
<tr>
<td>Other receivables</td>
<td>$ 5,228</td>
<td>$ 5,740</td>
</tr>
<tr>
<td>Due from other Governments</td>
<td>$ 486,186</td>
<td>$ 416,226</td>
</tr>
<tr>
<td>Inventories</td>
<td>$ 1,292</td>
<td>$ 1,464</td>
</tr>
<tr>
<td>Other assets</td>
<td>$ 1,981</td>
<td>$ 1,981</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>-</td>
<td>$ 455,819</td>
</tr>
<tr>
<td>Land and improvements</td>
<td>$ 6,344</td>
<td>$ 98,814</td>
</tr>
<tr>
<td>Buildings and building</td>
<td></td>
<td></td>
</tr>
<tr>
<td>improvements</td>
<td>$ 1,896,456</td>
<td>$ 1,903,112</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>$ 1,402,797</td>
<td>$ 1,529,165</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(1,203,379)</td>
<td>(1,409,033)</td>
</tr>
</tbody>
</table>

Total Liabilities for the government wide financial statements for June 30, 2006 decreased $351,810 when compared to June 30, 2005. The majority of the decrease can be attributed to the following categories:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$ 74,498</td>
<td>$ 105,240</td>
</tr>
<tr>
<td>Accrued salaries and benefits</td>
<td>$ 437,461</td>
<td>$ 258,161</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>$ 87,669</td>
<td>$ 127,336</td>
</tr>
<tr>
<td>Long term liabilities</td>
<td>$ 1,192,026</td>
<td>$ 1,037,911</td>
</tr>
</tbody>
</table>
Accounts payable increased over June 2005 totals as a result of a substantial outstanding payable totaling $47,571 payable to Lighthouse Architecture. This bill relates to ongoing service being provided for a renovation and construction project. The decrease in accrued salaries & benefits can be attributed to the reversing of a 2004-2005 accrual for staff bonuses and accruing one summer pay since this pay was actually paid prior to July 1, 2006.

The total net assets at June 30, 2006 amount to $3,371,655. For the year ended June 30, 2005, the total net assets were $2,036,847.

Revenue

The majority of general fund revenue is derived by local sources. For the year ended June 30, 2006, local revenue totaled $5,323,654 versus $4,868,211 for the year ended June 30, 2005. The increase was approximately 9.36% over last year. A bar graph is listed below comparing years by Local Educational Agency.

<table>
<thead>
<tr>
<th>Local Educational Agency</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bensalem Non Special Education</td>
<td>9.72%</td>
</tr>
<tr>
<td>Bensalem Special Education</td>
<td>9.97%</td>
</tr>
<tr>
<td>Bristol Non Special Education</td>
<td>27.52%</td>
</tr>
<tr>
<td>Bristol Special Education</td>
<td>26.62%</td>
</tr>
<tr>
<td>Philadelphia Non Special Education</td>
<td>3.94%</td>
</tr>
<tr>
<td>Philadelphia Special Education</td>
<td>7.89%</td>
</tr>
</tbody>
</table>

School Lane Charter School received $6,377 from the Pennsylvania Department of Education for reimbursement of leasing costs for the Annex. The net cost for the Annex lease was $18,824.

Interest income for the year ended June 30, 2006 totaled $45,823. This was approximately a 288% increase over last year. The increase can be attributed to maintaining higher cash balances and earning a higher rate of return.

Federal funding for No Child Left Behind increased approximately 2% over last year.
Revenue, Continued

School Lane Charter School's IDEA funding increased approximately 10% when compared to 2004-2005.
Expenditures

In 2005-2006, the Board of Trustees approved a $3,000 increase in the teacher's salary scale. This increase is effective for the 2006-2007 school year.

In 2005-2006, School Lane Charter School (School Lane) increased the tuition reimbursement allowance from $1,000 to $3,000 annually. Staff members were paid approximately $34,000 in tuition reimbursements during the 2005-2006 school year. In 2004-2005, tuition reimbursements totaled close to $12,000.

School Lane paid approximately $23,000 to teachers for providing extra-curricular activities. In 2004-2005, extra-curricular activities cost $25,000.

School Lane provided various field trips and in school presentations to the students. The total cost was approximately $30,000 during the 2005-2006 school year. In the 2004-2005 school year, field trips and school presentations costs totaled $22,000.

In a continued effort to provide updated technology to students, in the 2005-2006 school year, School Lane purchased 3 mobile computer carts. Each of these carts contains 26 laptops. The cost of these 3 mobile computer carts was approximately $98,187. In addition to these carts, approximately $5,900 was spent on printer and server upgrades.

School Lane completed the upgrade of the fire alarm system. The upgrade took place over the past three years. The entire fire alarm system now utilizes addressable smoke and heat detectors and can be controlled and viewed from two different panels inside the school building as well as remotely. This continued effort cost approximately $3,490 in the 2005-2006 school year.

School Lane repaved the schoolyard during August 2005. The cost was approximately $92,000. This project was funded through the Capital Projects Fund.

During the 2005-2006 school year, the front administrative offices were renovated. In addition to the renovation work, new furniture was purchased for several of these offices. The cost of the new furniture totaled approximately $3,000.
Expenditures, Continued

In an effort to improve internal controls, School Lane Charter School purchased a fire-proof safe to store check stock. The cost of the safe was $1,000.

Proprietary Fund

Revenue was generated primarily from the sale of meals, state and federal subsidy through the Free and Reduced Lunch Program and an annual transfer from the general fund.

Food revenue increased approximately 3% over in the 2004-2005 school year. The majority of increase can be attributed to more students purchasing the daily hot meal. Revenue from students participating in the Free and Reduce Lunch Program stayed constant when compared to the 2004-2005 school year. School Lane Charter School had a participation rate of 35% in the Free and Reduce Lunch Program during the 2005-2006 school year.

Expenditures decreased 3% when compared to the 2004-2005 school year. The decrease can be attributed to utilizing more free commodities offered through government subsidies and preparing more foods from scratch versus frozen meals. During the 2005-2006 school year, kitchen operations incurred close to $10,000 in capital expenditures. Kitchen operations replaced a refrigerator at a cost of $2,000 and two tier conventional oven for $8,000.

During the 2005-2006 school year, School Lane Charter School assumed the responsibility of the before/aftercare program run by the YMCA. The before/aftercare program generated a surplus totaling slightly above $4,000. Going forward, School Lane Charter School made the operational decision to maintain this program in-house verses outsourcing to a third party.
SCHOOL LANE CHARTER SCHOOL

Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2006

Significant Future Events

School Lane Charter School is planning a major renovation project and an addition to the existing school building. The addition will be approximately 27,160 square feet. The addition will include a gymnasium, 9 new classrooms, administrative office and 3 support classrooms. The renovation work will include air conditioning the existing building, replacing all the classroom and office doors, modernizing the school library and carpeting hallways. The total project is expected to cost $8.5 million dollars.

2005-2006 School Overview

School Lane Charter School's educational goal is to prepare students to be competent and compassionate. By competent, we mean the ability to use essential literacy skills within all academic disciplines as well as in lifelong learning. By compassionate, we mean the ability to be equitable, cooperative, non-violent, gender fair, multicultural, environmentally conscious, caring and creative. Our curricula prepare students to think critically and solve problems in many contexts both individually and collaboratively. Our curricula, in conjunction with computer technology, help students address all the global, local and personal challenges that they will face in this 21st century.

Our literacy program is designed to model good reading and writing, teach essential reading/writing/thinking strategies and introduce students to many genres and modes of discourse. Within our humanities program, students bring historical perspective to contemporary issues and contemporary perspective to historical issues. This point of view, combined with best teaching practices, nurtures our students to become caring citizens and smart consumers. The mathematics program provides students with multiple ways to reason and solve problems. Our science program assures students of a hands-on approach to knowing the natural world through a scientific approach.

All academic curricula are designed to spiral throughout the grades, be developmentally sound and tap into the multiple intelligences. School Lane Charter School is an inclusive school. No one is excluded from classes or a lesson because of ability. We value that all students learn in a social setting. Regardless whether students have special needs, teachers are responsible to provide instruction to meet the needs of all students. Teachers plan lessons with consideration to differentiated instruction. They take into account the fact that students differ as learners and that all students need to be challenged as well as feel successful. Teachers identify various levels of readiness, interest and learning styles in order to design multiple tasks that occur in the classroom at the same time. Students are evaluated through multiple and alternative forms of assessment. We identify and track student strengths and challenges by maintaining Individualized Learning Plans (ILP). By collecting, reviewing and archiving student profiles, we are better able to customize learning.
2005-2006 School Overview, Continued

Teachers plan collaboratively using a unit planning guide that fosters the focus on theme and essential questions as well as on the creation of end of unit exhibitions. Essential Questions (EQ's) reflect "big" questions that need to be pondered and studied. There is no one "correct" answer. Who is an American? What is a community of learners? Are animals necessary for man's survival? What is a good book? These are examples of essential questions that guide units. Essential questions challenge students' thinking. The questions prompt students to use new information to create new ideas or to raise further questions. The "so what" and "what if" nature of the questions inspire writing, performances and presentations.

Unit planning by the school also allows us to integrate our curriculum as much as possible. Each grade level has a humanities theme. This theme is used throughout the year to help focus the students' learning. We make connections to the theme in language arts, science and mathematics, art and performing arts. When making these cross curricular connections, our students are exposed to real world events. Assessment becomes authentic. Learning becomes grounded to understanding rather than just factual information.

Our integrated curriculum also is found in our approach to the concept of Sanctuary at School Lane Charter School. With our focus on Sanctuary, our goal is to create an integrated learning environment. In our integrated learning environment students bring the same academic strategies to real life situations. A sampling of these skills are: active listening, retelling, analyzing, inferring, brainstorming, considering multiple perspectives, questioning, summarizing, communicating with ethical procedures and diversity consciousness. When students are competent in these skills, they automatically tap into them when in a social or emotional conflict, which helps us create a Sanctuary. These are the types of skills that increase resilience, which is the key determinant for our students' overall success in the future.

School Lane Charter School integrates components of our educational programs that directly teach emotional and social literacy with our curriculum as well. Students learn strategies for changing the outcomes of conflict, affective use of language, and conflict resolution. School Lane Charter School utilizes peer mediation and restorative justice to help solve on going conflicts. The components of our educational program that directly teach emotional and social literacy are: PATHS, Lions-Quest, Bully Prevention, and The Journeys Program.
2005-2006 School Overview, Continued

We also incorporate principles and concepts of The Responsive Classroom. Every staff member is responsible for reading Ruth Charney’s Teaching Children to Care. This book supports us individually and as a community to create Sanctuary. "Rather than simply reacting to problems, we need to establish an ongoing curriculum in self-control, social participation and human development. Safe and effective communities are built through our commitment and conscious design; they grow from our best energies, time and attention." Through our work on responsive classrooms, we focus on:

- Thoughtful, provocative definitions of discipline and community
- Setting priorities and expectations with children
- Stages in establishing classroom routines
- Generating rules with students and using logical consequences
- Conducting problem-solving circles
- Problem-solving teacher-student conferences
- Avoiding power struggles
- Choosing effective language and tone
- Setting goals with students and parents
- Morning meetings

The 2005-2006 school year for School Lane Charter School saw several changes. We expanded our co-teaching model to include grades two through five. We analyzed data from the Metropolitan8 and PSSA data to determine the effectiveness of this model and found that students benefit from this model when teachers truly worked together as a team. This data was reinforced again this year. Finding the ideal match as a working partner is key to successful co-teaching student learning experience. SLCS adopted a new mathematics program during the 2005-2006 school year. We saw significant gains in mathematics achievement for students in grades kindergarten through sixth grade. SLCS has also taken on a building expansion project this year. We hope to add nine new classrooms and a full size gym to optimize the learning environment.

Areas of concern were found in grade 2 and 5 in reading scores and grade 2 and 8 mathematics scores. Across the grade level reading scores declined this past year. Our mathematics scores increased greatly and we attribute that to the new mathematics program. Reading will be a focus for the 2006-2007 school year.
## SCHOOL LANE CHARTER SCHOOL

### Statement of Net Assets

**June 30, 2006**

<table>
<thead>
<tr>
<th></th>
<th>Governmental Activities</th>
<th>Business-Type Activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$ 1,806,061</td>
<td>$ 90,954</td>
<td>$ 1,897,015</td>
</tr>
<tr>
<td>Other receivables</td>
<td>5,740</td>
<td>-</td>
<td>5,740</td>
</tr>
<tr>
<td>Internal balances</td>
<td>585,431</td>
<td>(585,431)</td>
<td>-</td>
</tr>
<tr>
<td>Due from other governments</td>
<td>413,094</td>
<td>3,132</td>
<td>416,226</td>
</tr>
<tr>
<td>Inventories</td>
<td>-</td>
<td>1,464</td>
<td>1,464</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,981</td>
<td>-</td>
<td>1,981</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>-</td>
<td>455,819</td>
<td>455,819</td>
</tr>
<tr>
<td>Land and improvements</td>
<td>98,814</td>
<td>-</td>
<td>98,814</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>1,903,112</td>
<td>-</td>
<td>1,903,112</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>1,445,185</td>
<td>83,980</td>
<td>1,529,165</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(1,362,357)</td>
<td>(46,676)</td>
<td>(1,409,033)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4,897,061</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3,242</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4,900,303</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>100,804</td>
<td>4,436</td>
<td>105,240</td>
</tr>
<tr>
<td>Accrued salaries and benefits</td>
<td>258,161</td>
<td>-</td>
<td>258,161</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>126,187</td>
<td>1,149</td>
<td>127,336</td>
</tr>
<tr>
<td>Long-term liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portion due or payable within one year:</td>
<td>11,747</td>
<td>-</td>
<td>11,747</td>
</tr>
<tr>
<td>Capital lease obligations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage payable</td>
<td>51,944</td>
<td>-</td>
<td>51,944</td>
</tr>
<tr>
<td>Portion due or payable after one year:</td>
<td>974,220</td>
<td>-</td>
<td>974,220</td>
</tr>
<tr>
<td>Mortgage payable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1,523,063</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5,585</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1,528,648</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets, net of related debt</td>
<td>1,046,843</td>
<td>493,123</td>
<td>1,539,966</td>
</tr>
<tr>
<td>Restricted for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital projects</td>
<td>34,105</td>
<td>-</td>
<td>34,105</td>
</tr>
<tr>
<td>Unrestricted (deficit)</td>
<td>2,293,050</td>
<td>(495,466)</td>
<td>1,797,584</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 3,373,998</td>
<td>$ (2,343)</td>
<td>$ 3,371,655</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
SCHOOL LANE CHARTER SCHOOL

Statement of Activities
Year Ended June 30, 2006

<table>
<thead>
<tr>
<th>Functions/Programs</th>
<th>Program Revenues</th>
<th></th>
<th>Operating Grants and Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Expenses</td>
<td>Charges for Services</td>
<td></td>
</tr>
<tr>
<td>Governmental activities:</td>
<td>$1,968,111</td>
<td>$4,167,320</td>
<td>$88,981</td>
</tr>
<tr>
<td>Instruction:</td>
<td>590,960</td>
<td>1,041,830</td>
<td>89,930</td>
</tr>
<tr>
<td>Regular</td>
<td>120,095</td>
<td>-</td>
<td>5,655</td>
</tr>
<tr>
<td>Special</td>
<td>263,936</td>
<td>-</td>
<td>218,640</td>
</tr>
<tr>
<td>Support services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pupil</td>
<td>71,982</td>
<td>-</td>
<td>3,157</td>
</tr>
<tr>
<td>Instructional staff</td>
<td>27,010</td>
<td>-</td>
<td>1,328</td>
</tr>
<tr>
<td>Administration</td>
<td>521,541</td>
<td>-</td>
<td>21,113</td>
</tr>
<tr>
<td>Pupil health</td>
<td>65,220</td>
<td>-</td>
<td>13,744</td>
</tr>
<tr>
<td>Business</td>
<td>60,751</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>482,566</td>
<td>-</td>
<td>6,794</td>
</tr>
<tr>
<td>Operation of noninstructional services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student activities</td>
<td>-</td>
<td>547</td>
<td>-</td>
</tr>
<tr>
<td>Community services</td>
<td>602</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Facilities acquisition, construction and improvement services</td>
<td>75,303</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest on long-term debt</td>
<td>76,182</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total governmental activities</td>
<td>4,324,259</td>
<td>5,209,697</td>
<td>449,342</td>
</tr>
<tr>
<td>Business - type activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School Lane Foundation</td>
<td>46,258</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Before and after care</td>
<td>9,874</td>
<td>14,348</td>
<td>-</td>
</tr>
<tr>
<td>Food service</td>
<td>151,079</td>
<td>71,052</td>
<td>67,616</td>
</tr>
<tr>
<td></td>
<td>4,531,470</td>
<td>5,295,097</td>
<td>516,958</td>
</tr>
</tbody>
</table>

General revenues:
  Investment earnings
  Miscellaneous
  Transfers

Total general revenues and transfers

Change in net assets
Net assets beginning of year

Net assets end of year

See accompanying notes to basic financial statements.
<table>
<thead>
<tr>
<th>Capital Grants and Contributions</th>
<th>Governmental Activities</th>
<th>Business-Type Activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$ 2,288,190</td>
<td>$</td>
<td>$ 2,288,190</td>
</tr>
<tr>
<td>-</td>
<td>540,800</td>
<td>-</td>
<td>540,800</td>
</tr>
<tr>
<td>-</td>
<td>(114,440)</td>
<td>-</td>
<td>(114,440)</td>
</tr>
<tr>
<td>-</td>
<td>(45,296)</td>
<td>-</td>
<td>(45,296)</td>
</tr>
<tr>
<td>-</td>
<td>(68,825)</td>
<td>-</td>
<td>(68,825)</td>
</tr>
<tr>
<td>-</td>
<td>(25,682)</td>
<td>-</td>
<td>(25,682)</td>
</tr>
<tr>
<td>-</td>
<td>(500,428)</td>
<td>-</td>
<td>(500,428)</td>
</tr>
<tr>
<td>-</td>
<td>(51,476)</td>
<td>-</td>
<td>(51,476)</td>
</tr>
<tr>
<td>-</td>
<td>(60,751)</td>
<td>-</td>
<td>(60,751)</td>
</tr>
<tr>
<td>6,377</td>
<td>(469,395)</td>
<td>-</td>
<td>(469,395)</td>
</tr>
<tr>
<td>-</td>
<td>547</td>
<td>-</td>
<td>547</td>
</tr>
<tr>
<td>-</td>
<td>(602)</td>
<td>-</td>
<td>(602)</td>
</tr>
<tr>
<td>-</td>
<td>(75,303)</td>
<td>-</td>
<td>(75,303)</td>
</tr>
<tr>
<td>-</td>
<td>(76,182)</td>
<td>-</td>
<td>(76,182)</td>
</tr>
<tr>
<td>6,377</td>
<td>1,341,157</td>
<td>-</td>
<td>1,341,157</td>
</tr>
<tr>
<td>-</td>
<td>(46,258)</td>
<td>-</td>
<td>(46,258)</td>
</tr>
<tr>
<td>-</td>
<td>4,474</td>
<td>-</td>
<td>4,474</td>
</tr>
<tr>
<td>-</td>
<td>(12,411)</td>
<td>-</td>
<td>(12,411)</td>
</tr>
</tbody>
</table>

| 6,377                           | 1,341,157               | (54,195)                 | 1,286,962 |

| 46,552                          | 932                     | 47,484                   |
| 362                             | -                       | 362                      |
| (185,290)                       | 185,290                 | -                        |
| (138,376)                       | 186,222                 | 47,846                   |

| 1,202,781                       | 132,027                 | 1,334,808                |
| 2,171,217                       | (134,370)               | 2,036,847                |

| $ 3,373,998                     | $ (2,343)                | $ 3,371,655              |

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[ THIS PAGE INTENTIONALLY LEFT BLANK ]
### Balance Sheet - Governmental Funds
**June 30, 2006**

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Capital Projects Fund</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$1,771,956</td>
<td>$34,105</td>
<td>$1,806,061</td>
</tr>
<tr>
<td>Due from other funds</td>
<td>585,431</td>
<td>-</td>
<td>585,431</td>
</tr>
<tr>
<td>Other receivables</td>
<td>5,740</td>
<td>-</td>
<td>5,740</td>
</tr>
<tr>
<td>Intergovernmental receivables</td>
<td>413,094</td>
<td>-</td>
<td>413,094</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,981</td>
<td>-</td>
<td>1,981</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,778,202</td>
<td>34,105</td>
<td>2,812,307</td>
</tr>
<tr>
<td><strong>Liabilities and fund balances:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>100,804</td>
<td>-</td>
<td>100,804</td>
</tr>
<tr>
<td>Accrued salaries and benefits</td>
<td>258,161</td>
<td>-</td>
<td>258,161</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>126,187</td>
<td>-</td>
<td>126,187</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>485,152</td>
<td>-</td>
<td>485,152</td>
</tr>
<tr>
<td><strong>Fund balances:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserved</td>
<td>-</td>
<td>34,105</td>
<td>34,105</td>
</tr>
<tr>
<td>Unreserved</td>
<td>2,293,050</td>
<td>-</td>
<td>2,293,050</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,293,050</td>
<td>34,105</td>
<td>2,327,155</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,778,202</td>
<td>$34,105</td>
<td>$2,812,307</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
Total governmental fund balances $ 2,327,155

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is $3,447,111 and the accumulated depreciation is $1,362,357 2,084,754

Long-term liabilities, including mortgage payable, are not due and payable in the current period and therefore are not reported as liabilities in the fund. Those liabilities consist of:
- Capital lease obligations $ (11,747)
- Mortgage payable (1,026,164) (1,037,911)

Total net assets of governmental activities $ 3,373,998

See accompanying notes to basic financial statements.
SCHOOL LANE CHARTER SCHOOL

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2006

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Capital Projects Fund</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local sources</td>
<td>$5,323,654</td>
<td>$723</td>
<td>$5,324,377</td>
</tr>
<tr>
<td>State sources</td>
<td>179,819</td>
<td>-</td>
<td>179,819</td>
</tr>
<tr>
<td>Federal sources</td>
<td>208,134</td>
<td>-</td>
<td>208,134</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,711,607</td>
<td>723</td>
<td>5,712,330</td>
</tr>
</tbody>
</table>

|                     |              |                       |                          |
| **Expenditures:**   |              |                       |                          |
| Instruction         | 2,830,256    | -                     | 2,830,256                |
| Support services    | 1,313,533    | -                     | 1,313,533                |
| Operation of non-instructional services | 602 | - | 602 |
| Facilities acquisition, construction and improvement services | 26,719 | 92,470 | 119,189 |
| Debt service        | 230,297      | -                     | 230,297                  |
| **Total**           | 4,401,407    | 92,470                | 4,493,877                |

|                     |              |                       |                          |
| **Excess (deficiency) of revenues over (under) expenditures** | 1,310,200 | (91,747) | 1,218,453 |

| Other financing uses: | | | |
| Interfund transfers | (185,290) | - | (185,290) |

| Excess of revenues over (under) expenditures and other financing uses | 1,124,910 | (91,747) | 1,033,163 |

| Fund balance, beginning of year | 1,168,140 | 125,852 | 1,293,992 |

| Fund balance, end of year | $2,293,050 | $34,105 | $2,327,155 |

See accompanying notes to basic financial statements.
Net change in fund balances - governmental funds $ 1,033,163

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the period. 15,503

Repayment of mortgage principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 57,088

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 97,027

Change in net assets of governmental activities $ 1,202,781

See accompanying notes to basic financial statements.
# Statement of Net Assets - Proprietary Funds

**June 30, 2006**

## Assets

<table>
<thead>
<tr>
<th></th>
<th>School Lane Foundation</th>
<th>Food Service Fund</th>
<th>Other Fund</th>
<th>Total Enterprise Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>$ 58,133</td>
<td>$ 28,117</td>
<td>$ 4,704</td>
<td>$ 90,954</td>
</tr>
<tr>
<td>Intergovernmental receivable</td>
<td>-</td>
<td>$ 3,132</td>
<td></td>
<td>3,132</td>
</tr>
<tr>
<td>Inventories</td>
<td>-</td>
<td>$ 1,464</td>
<td>-</td>
<td>$ 1,464</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>58,133</td>
<td>32,713</td>
<td>4,704</td>
<td>95,550</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>455,819</td>
<td>-</td>
<td>-</td>
<td>455,819</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>1,149</td>
<td>82,831</td>
<td>-</td>
<td>83,980</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(115)</td>
<td>(46,561)</td>
<td>-</td>
<td>(46,676)</td>
</tr>
</tbody>
</table>

**Total** | **514,986** | **68,983** | **4,704** | **588,673**

## Liabilities

<table>
<thead>
<tr>
<th></th>
<th>School Lane Foundation</th>
<th>Food Service Fund</th>
<th>Other Fund</th>
<th>Total Enterprise Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$ 3,574</td>
<td>$ 862</td>
<td>-</td>
<td>$ 4,436</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>919</td>
<td>-</td>
<td>230</td>
<td>1,149</td>
</tr>
<tr>
<td>Due to other funds</td>
<td>555,819</td>
<td>29,612</td>
<td>-</td>
<td>585,431</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>560,312</td>
<td>30,474</td>
<td>230</td>
<td>591,016</td>
</tr>
</tbody>
</table>

## Net Assets

<table>
<thead>
<tr>
<th></th>
<th>School Lane Foundation</th>
<th>Food Service Fund</th>
<th>Other Fund</th>
<th>Total Enterprise Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in capital assets</td>
<td>456,853</td>
<td>36,270</td>
<td>-</td>
<td>493,123</td>
</tr>
<tr>
<td>Unrestricted (deficit)</td>
<td>(502,179)</td>
<td>2,239</td>
<td>4,474</td>
<td>(495,466)</td>
</tr>
</tbody>
</table>

**Total** | **45,326** | **38,509** | **4,474** | **(2,343)**

**$ 514,986** | **$ 68,983** | **$ 4,704** | **$ 588,673**

See accompanying notes to basic financial statements.
### Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds

**Year Ended June 30, 2006**

<table>
<thead>
<tr>
<th></th>
<th>School Lane Foundation</th>
<th>Food Service Fund</th>
<th>Other Fund</th>
<th>Total Enterprise Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before and after care revenue</td>
<td>$ -</td>
<td>$ -</td>
<td>$14,348</td>
<td>$14,348</td>
</tr>
<tr>
<td>Food service revenue</td>
<td>-</td>
<td>71,052</td>
<td>-</td>
<td>71,052</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>71,052</td>
<td>14,348</td>
<td>85,400</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel services - salaries and benefits</td>
<td>28,352</td>
<td>63,906</td>
<td>9,858</td>
<td>102,116</td>
</tr>
<tr>
<td>Supplies</td>
<td>7,485</td>
<td>78,468</td>
<td>-</td>
<td>85,953</td>
</tr>
<tr>
<td>Depreciation</td>
<td>115</td>
<td>6,494</td>
<td>-</td>
<td>6,609</td>
</tr>
<tr>
<td>Other purchased services</td>
<td>7,146</td>
<td>2,211</td>
<td>16</td>
<td>9,373</td>
</tr>
<tr>
<td>Other</td>
<td>3,160</td>
<td>-</td>
<td>-</td>
<td>3,160</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>46,258</td>
<td>151,079</td>
<td>9,874</td>
<td>207,211</td>
</tr>
<tr>
<td><strong>Operating income (loss)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(46,258)</td>
<td>(80,027)</td>
<td>4,474</td>
<td>(121,811)</td>
</tr>
<tr>
<td><strong>Nonoperating revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State sources</td>
<td>-</td>
<td>5,165</td>
<td>-</td>
<td>5,165</td>
</tr>
<tr>
<td>Interest income</td>
<td>932</td>
<td>-</td>
<td>-</td>
<td>932</td>
</tr>
<tr>
<td><strong>Total nonoperating revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>932</td>
<td>67,616</td>
<td>-</td>
<td>68,548</td>
</tr>
<tr>
<td><strong>Income (loss) before transfers</strong></td>
<td>(45,326)</td>
<td>(12,411)</td>
<td>4,474</td>
<td>(53,263)</td>
</tr>
<tr>
<td><strong>Transfers in</strong></td>
<td>-</td>
<td>185,290</td>
<td>-</td>
<td>185,290</td>
</tr>
<tr>
<td><strong>Net income (loss)</strong></td>
<td>(45,326)</td>
<td>172,879</td>
<td>4,474</td>
<td>132,027</td>
</tr>
<tr>
<td><strong>Net assets (deficit):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>-</td>
<td>(134,370)</td>
<td>-</td>
<td>(134,370)</td>
</tr>
<tr>
<td><strong>End of year</strong></td>
<td>$ (45,326)</td>
<td>$ 38,509</td>
<td>$ 4,474</td>
<td>$ (2,343)</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
## Statement of Cash Flows - Proprietary Funds
### Year Ended June 30, 2006

<table>
<thead>
<tr>
<th>Cash flows from operating activities:</th>
<th>School Lane Foundation</th>
<th>Food Service Fund</th>
<th>Other Fund</th>
<th>Total Enterprise Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash received from customers</td>
<td>$ -</td>
<td>$ 71,052</td>
<td>$ 14,578</td>
<td>$ 85,630</td>
</tr>
<tr>
<td>Payments to suppliers</td>
<td>(14,217)</td>
<td>(84,102)</td>
<td>(16)</td>
<td>(98,335)</td>
</tr>
<tr>
<td>Payments to employees</td>
<td>(27,433)</td>
<td>(63,906)</td>
<td>(9,858)</td>
<td>(101,197)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) operating activities</strong></td>
<td>(41,650)</td>
<td>(76,956)</td>
<td>4,704</td>
<td>(113,902)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from noncapital financing activities:</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash advances from other funds</td>
<td>100,000</td>
<td>49,612</td>
<td>-</td>
<td>149,612</td>
</tr>
<tr>
<td>State sources</td>
<td>-</td>
<td>4,920</td>
<td>-</td>
<td>4,920</td>
</tr>
<tr>
<td>Federal sources</td>
<td>-</td>
<td>59,564</td>
<td>-</td>
<td>59,564</td>
</tr>
<tr>
<td>Interest income</td>
<td>932</td>
<td>-</td>
<td>-</td>
<td>932</td>
</tr>
<tr>
<td><strong>Net cash provided by noncapital financing activities</strong></td>
<td>100,932</td>
<td>114,096</td>
<td>-</td>
<td>215,028</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from capital and related financing activities:</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of capital assets</td>
<td>(1,149)</td>
<td>(9,797)</td>
<td>-</td>
<td>(10,946)</td>
</tr>
<tr>
<td>Principal paid on capital lease</td>
<td>-</td>
<td>(1,866)</td>
<td>-</td>
<td>(1,866)</td>
</tr>
<tr>
<td><strong>Net cash used for capital and related financing activities</strong></td>
<td>(1,149)</td>
<td>(11,663)</td>
<td>-</td>
<td>(12,812)</td>
</tr>
</tbody>
</table>

| Net increase in cash                                  | 58,133                 | 25,477            | 4,704      | 88,314               |
| Cash at beginning of year                             | -                      | 2,640             | -          | 2,640                |
| **Cash at end of year**                               | $ 58,133               | $ 28,117          | $ 4,704    | $ 90,954             |

<table>
<thead>
<tr>
<th>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income (loss)</td>
<td>$ (46,258)</td>
<td>$ (80,027)</td>
<td>$ 4,474</td>
<td>$ (121,811)</td>
</tr>
<tr>
<td>Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>115</td>
<td>6,494</td>
<td>-</td>
<td>6,609</td>
</tr>
<tr>
<td>Increase in:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>-</td>
<td>(172)</td>
<td>-</td>
<td>(172)</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>3,574</td>
<td>(3,251)</td>
<td>-</td>
<td>323</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>919</td>
<td>-</td>
<td>230</td>
<td>1,149</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) operating activities</strong></td>
<td>$ (41,650)</td>
<td>$ (76,956)</td>
<td>$ 4,704</td>
<td>$ (113,902)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Schedule of noncash noncapital financing activities:</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>During the year, School Lane Foundation had construction in progress costs of $455,819, which were paid for by School Lane.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>During the year, School Lane General Fund forgave the Food Service Fund in the amount of $135,678 of funds due to them, which reduced the due to other fund balance and increased transfers in for the year.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
### SCHOOL LANE CHARTER SCHOOL

**Statement of Net Assets - Fiduciary Fund**  
**June 30, 2006**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Agency Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$ 6,290</td>
</tr>
<tr>
<td></td>
<td>$ 6,290</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
</tr>
<tr>
<td>Due to student groups</td>
<td>$ 6,290</td>
</tr>
<tr>
<td></td>
<td>$ 6,290</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
(1) Nature of Business

School Lane Charter School (School Lane) was originally granted a Charter to operate a public school, by the Commonwealth of Pennsylvania, on July 1, 1998. School Lane's current Charter does not expire until June 30, 2008.

School Lane is located in Bucks County, Pennsylvania, and provides a full range of educational services appropriate to grade levels kindergarten through 8 to students from surrounding districts. School Lane has a nine member appointed board of trustees who oversee the operations of the School. School Lane is composed of one elementary school serving approximately 550 students.

The accounting policies of School Lane conform to generally accepted accounting principles in the United States of America as applicable to governments. The following is a summary of the more significant policies and practices of School Lane.

(2) Significant Accounting Policies

Fund Accounting

The accounts of School Lane are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses. The funds are grouped into three types. The following is a description of the fund types used by School Lane in the accompanying basic financial statements.

Governmental Fund Types

General Fund - This is the general operating fund of School Lane. All activities of School Lane are accounted for through this fund except for those required to be accounted for in another fund. This fund is reported as a major fund.

Capital Projects Fund - This is a board designated fund used to account for financial resources allocated for the improvement of the School's facilities.

Proprietary Fund Types

Food Service Fund - This fund is used to account for School Lane's food service operations that are financed and operated in a manner similar to private business enterprises. The fund accounts for all revenues, food purchases, and costs and expenses for its Food Service Program. This fund is reported as a major fund.

Continued...
(2) Significant Accounting Policies, Continued

Fund Accounting, Continued

Proprietary Fund Types, Continued

School Lane Foundation – This is a blended component unit of School Lane which is accounted for as an enterprise fund. The fund accounts for all revenues and expenses for the acquisition, renovation and equipping of the new building project. The Foundation is reported as a major fund.

Before and After Care – This fund is used to account for School Lane's before and after school care service operations that are financed and operated in a manner similar to private business enterprises. The fund accounts for all revenues, payroll expenses, and costs and expenses for its Before and After Care Program.

Fiduciary Fund Type

Agency Fund - The Agency Fund accounts for the receipts and disbursements of monies from student activity organizations. These organizations exist at the explicit approval, subject to revocation, of the School's governing body. This accounting reflects the School's agency relationship with the student activity organizations. Accordingly, receipts and disbursements of the Agency Fund are not included in the revenues and expenditures of the school.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the School as a whole excluding fiduciary activities such as the agency fund. Individual funds are not displayed but the statements distinguish governmental activities and general revenues from business-type activities (generally financed in whole or in part with fees charged for services).

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the School's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues.

Continued…
(2) Significant Accounting Policies, Continued

Government-Wide and Fund Financial Statements, Continued

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the School are prepared in accordance with accounting principles generally accepted in the United States of America. The School’s reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The government-wide and proprietary fund financial statements apply Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges for services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Continued…
(2) Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation, Continued

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as needed.

Revenue from State and Federal Sources

State subsidies represent current year entitlements and are recognized as revenue in the current fiscal year even though funds may be received in the following year. Federal Program funds applicable to expenditures of the current fiscal year but expected to be received in the next fiscal year are accrued as current year revenues.

Capital Assets and Depreciation

The School's property, plant and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at fair value on the date donated. The School generally capitalizes assets with a cost of $1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are generally as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land improvements, building</td>
<td>40 years</td>
</tr>
<tr>
<td>and building improvements</td>
<td></td>
</tr>
<tr>
<td>Furniture, fixtures and equipment</td>
<td>3 - 10 years</td>
</tr>
<tr>
<td>Food service equipment</td>
<td>12 years</td>
</tr>
</tbody>
</table>

Long-Term Debt

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities.

Continued...
(2) Significant Accounting Policies, Continued

Budgetary Data

School Lane follows the following procedures in establishing the budgetary data reflected in the basic financial statements:

a) Prior to May 31, the Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.

b) Prior to June 30, the budget is legally enacted through passage of a resolution.

c) Legal budgetary control is maintained by the Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund must be approved by the Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control.

d) Budgetary data is included in School Lane’s management information system and is employed as a management control device during the year.

e) The budget for the General Fund is adopted substantially on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

Financial Reporting Entity

Generally accepted accounting principles require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and based on the foregoing criteria, financial information relating to School Lane Foundation is included as a blended component unit in the accompanying basic financial statements.
(2) Significant Accounting Policies, Continued

Pension Plan

Substantially all full-time and part-time employees of School Lane participate in a cost-sharing multiple employer defined benefit pension plan. School Lane recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure until payable with expendable, available financial resources.) School Lane made all required contributions for the year ended June 30, 2006, and has recognized them as expenditures in the governmental fund.

Inventories

Inventories of the Food Service Fund are valued at the lower of cost, determined by the first-in first-out method, or market.

Use of Estimates

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

(3) Cash and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, School Lane is permitted to invest funds in the following types of investments:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision. Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

Continued...
(3) **Cash and Investments, Continued**

The deposit and investment policy of School Lane adheres to state statutes. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of School Lane. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. For this classification certificates of deposit are considered deposits. The School does not have a deposit policy for custodial credit risk. As of June 30, 2006, $1,740,173 of the School's bank balance of $2,087,725 was exposed to custodial credit risk of deposits uninsured and collateral held by the pledging financial institution, or its trust department, but not in the School's name.

(4) **Capital Assets**

A summary of changes in the capital assets is as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Balance June 30, 2005</th>
<th>Additions</th>
<th>Balance June 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Site improvements</td>
<td>$ 6,344</td>
<td>$ 92,470</td>
<td>$ 98,814</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>1,896,456</td>
<td>6,656</td>
<td>1,903,112</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>1,329,763</td>
<td>115,422</td>
<td>1,445,185</td>
</tr>
<tr>
<td>Total historical cost</td>
<td>3,232,563</td>
<td>214,548</td>
<td>3,447,111</td>
</tr>
<tr>
<td>Less accumulated depreciation:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Site improvements</td>
<td>-</td>
<td>1,156</td>
<td>1,156</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>280,203</td>
<td>47,427</td>
<td>327,630</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>883,109</td>
<td>150,462</td>
<td>1,033,571</td>
</tr>
<tr>
<td>Total accumulated depreciation</td>
<td>1,163,312</td>
<td>199,045</td>
<td>1,362,357</td>
</tr>
<tr>
<td>Governmental activities, net</td>
<td>$ 2,069,251</td>
<td>$ 15,503</td>
<td>$ 2,084,754</td>
</tr>
<tr>
<td>Business-type activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>$ 73,034</td>
<td>$ 10,946</td>
<td>$ 83,980</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>-</td>
<td>455,819</td>
<td>455,819</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(40,067)</td>
<td>(6,609)</td>
<td>(46,676)</td>
</tr>
<tr>
<td>Business-type activities, net</td>
<td>$ 32,967</td>
<td>$ 460,156</td>
<td>$ 493,123</td>
</tr>
</tbody>
</table>

Continued...
(4) Capital Assets, Continued

Depreciation expense was charged to governmental functions as follows:

<table>
<thead>
<tr>
<th>Instruction</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular</td>
<td>$75,231</td>
</tr>
<tr>
<td>Special</td>
<td>22,570</td>
</tr>
<tr>
<td>Vocational</td>
<td>15,046</td>
</tr>
<tr>
<td>Support services:</td>
<td></td>
</tr>
<tr>
<td>Pupil</td>
<td>7,523</td>
</tr>
<tr>
<td>Administration</td>
<td>7,523</td>
</tr>
<tr>
<td>Business</td>
<td>7,523</td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>15,046</td>
</tr>
<tr>
<td>Facilities acquisition, construction and improvement services</td>
<td>48,583</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$199,045</strong></td>
</tr>
</tbody>
</table>

(5) Mortgage Payable

An analysis of the mortgage payable at June 30, 2006, including changes for the year, is presented below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Interest Rate</th>
<th>Balance June 30, 2005</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance June 30, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>DNB First</td>
<td>6.25%</td>
<td>$1,083,252</td>
<td>$-</td>
<td>($57,088)</td>
<td>$1,026,164</td>
</tr>
</tbody>
</table>

On October 26, 2004, School Lane borrowed $1,150,000 from DNB First which was used to pay off the mortgage payable to the Reinvestment Fund. The DNB First mortgage is payable in sixty monthly principal and interest installments of $9,945 through November 1, 2009 then 59 monthly installments at a variable interest rate and a final payment due November 1, 2014 on the unpaid balance.
SCHOOL LANE CHARTER SCHOOL

Notes to Basic Financial Statements
June 30, 2006

(5) Mortgage Payable, Continued

Maturities of the mortgage payable are as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$ 51,944</td>
<td>$ 57,451</td>
<td>$ 109,395</td>
</tr>
<tr>
<td>2008</td>
<td>60,156</td>
<td>59,184</td>
<td>119,340</td>
</tr>
<tr>
<td>2009</td>
<td>64,025</td>
<td>55,315</td>
<td>119,340</td>
</tr>
<tr>
<td>2010</td>
<td>68,143</td>
<td>51,197</td>
<td>119,340</td>
</tr>
<tr>
<td>2011</td>
<td>72,526</td>
<td>46,814</td>
<td>119,340</td>
</tr>
<tr>
<td>2012-2015</td>
<td>709,370</td>
<td>122,885</td>
<td>832,255</td>
</tr>
</tbody>
</table>

$ 1,026,164 $ 392,846 $ 1,419,010

(6) Capital Leases

In September 2000, School Lane entered into a long-term lease agreement for the purchase of property. The amount of the lease was for $800,000 of which approximately $352,000 was used to pay off the previous lease obligation. The lease was classified as a capital lease and expired in 2006.

In August 2003, School Lane entered into a long-term lease agreement for the purchase of computer equipment. The amount of the lease was for $189,052 and it is classified as a capital lease.

The leases are reported as governmental activities and business-type activities in the statement of net assets. School Lane's rental payments totaled $101,237 for governmental activities and $1,866 for business activities of which $97,027 and $1,866 represent principal for the governmental activities and business activities for the year ended June 30, 2006, respectively.

Building improvements, furniture and equipment include the following leased property under the capital leases at June 30, 2006:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental activities</td>
<td>$ 189,052</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(94,526)</td>
</tr>
<tr>
<td></td>
<td>$ 94,526</td>
</tr>
</tbody>
</table>

Continued…
(6) Capital Leases, Continued

The following is a schedule of future minimum lease payments for the capital lease as of June 30, 2006:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th>Principal Amount</th>
<th>Interest Amount</th>
<th>Lease Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$11,747</td>
<td>$245</td>
<td>$11,992</td>
</tr>
</tbody>
</table>

(7) Defined Benefit Pension Plan

Plan Description

School Lane contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employees' Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the Pennsylvania Public School Employees' Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. It also provides for refunds of a member's accumulated contribution upon termination of a member's employment in the public school sector. PSERS issues a comprehensive annual information financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PSERS, P.O. Box 125, Harrisburg, PA 17108-0125.
(7) Defined Benefit Pension Plan, Continued

Funding Policy

The contribution policy is established by the Code and requires contributions by active members and employers and the Commonwealth. Most active members are required to contribute 5.25% of their compensation if they joined the plan before July 22, 1983, and 6.25% if they joined on or after that date. Members enrolled at July 1, 2001 had to elect to maintain the same contribution rate as stated above or change to a higher contribution rate that provides greater retirement benefits. The new higher contribution rates effective January 1, 2002, are 6.50% if the member joined prior to July 22, 1983 and 7.50% if they joined on or after that date. The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payroll during the period for which the amount is determined. School Lane is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. School Lane's contributions to PSERS for the years ending June 30, 2006, 2005 and 2004 were $158,536, $92,860 and $115,348, respectively. Those amounts are equal to the required contribution for each year.

(8) Tax Status

School Lane qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code. Accordingly, no federal or state income tax has been recognized for the year ended June 30, 2006.

(9) Fund Balances (Deficit)

School Lane Foundation has a deficit of $45,326 at June 30, 2006, and revenues exceed expenses by $45,326 for the year ended June 30, 2006. It is the intention of School Lane to receive financing in the up coming year which will relieve the liability to the general fund for the expenses incurred.

(10) Interfund Balances

General fund monies are used to pay for certain costs of the Food Service and School Lane Foundation. These costs are subsequently reimbursed to the general fund and the activity is recorded through interfund balances. As of June 30, 2006, the Food Service and School Lane Foundation owed the general fund $585,431. This amount is reflected in the statement of net assets as internal balances.
(11) Balances and Transactions within the Reporting Entity

Receivables and Payables

Generally, outstanding balances between funds reported as due to/from other funds include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds (i.e., the current portion of interfund loans).

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

(12) Litigation

School Lane is defendant in several legal actions at June 30, 2006. In the opinion of School Lane officials, the ultimate outcome of these actions will not have a material adverse effect on School Lane's financial statements.
SUPPLEMENTARY INFORMATION
## Required Supplementary Information

### Budgetary Comparison Schedule - General Fund

**Year Ended June 30, 2006**

<table>
<thead>
<tr>
<th></th>
<th>Budgeted Amounts</th>
<th>Actual (Budgetary Basis)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Final</td>
<td></td>
</tr>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local sources</td>
<td>$ 5,123,929</td>
<td>$ 5,123,929</td>
<td>$ 5,323,654</td>
</tr>
<tr>
<td>State sources</td>
<td>209,500</td>
<td>209,500</td>
<td>179,819</td>
</tr>
<tr>
<td>Federal sources</td>
<td>214,437</td>
<td>214,437</td>
<td>208,134</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>5,547,866</td>
<td>5,547,866</td>
<td>5,711,607</td>
</tr>
<tr>
<td><strong>Expenditures:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Instruction:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular programs-elementary</td>
<td>2,237,759</td>
<td>2,237,759</td>
<td>1,892,880</td>
</tr>
<tr>
<td>Special programs-elementary</td>
<td>666,520</td>
<td>666,520</td>
<td>568,391</td>
</tr>
<tr>
<td>Vocational</td>
<td>115,243</td>
<td>115,243</td>
<td>105,049</td>
</tr>
<tr>
<td>Other instructional programs-elementary</td>
<td>220,448</td>
<td>220,448</td>
<td>263,956</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,239,970</td>
<td>3,239,970</td>
<td>2,830,256</td>
</tr>
<tr>
<td><strong>Support services:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pupil personnel</td>
<td>124,300</td>
<td>124,300</td>
<td>64,459</td>
</tr>
<tr>
<td>Instructional staff</td>
<td>57,578</td>
<td>57,578</td>
<td>27,010</td>
</tr>
<tr>
<td>Administration</td>
<td>612,840</td>
<td>612,840</td>
<td>514,018</td>
</tr>
<tr>
<td>Pupil health</td>
<td>72,924</td>
<td>72,924</td>
<td>65,220</td>
</tr>
<tr>
<td>Business</td>
<td>60,000</td>
<td>60,000</td>
<td>53,228</td>
</tr>
<tr>
<td>Operation and maintenance of plant services</td>
<td>621,891</td>
<td>621,891</td>
<td>589,598</td>
</tr>
<tr>
<td><strong>Operation of non-instructional services:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student activities</td>
<td>2,000</td>
<td>2,000</td>
<td>-</td>
</tr>
<tr>
<td>Community services</td>
<td>500</td>
<td>500</td>
<td>602</td>
</tr>
<tr>
<td><strong>Facilities acquisition, construction and improvement services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>25,000</td>
<td>25,000</td>
<td>26,719</td>
</tr>
<tr>
<td><strong>Debt service</strong></td>
<td>238,283</td>
<td>238,283</td>
<td>230,297</td>
</tr>
<tr>
<td><strong>Total expenditures</strong></td>
<td>5,055,286</td>
<td>5,055,286</td>
<td>4,401,407</td>
</tr>
<tr>
<td><strong>Revenues over expenditures</strong></td>
<td>492,580</td>
<td>492,580</td>
<td>1,310,200</td>
</tr>
<tr>
<td><strong>Other financing uses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interfund transfers</td>
<td>(50,000)</td>
<td>(50,000)</td>
<td>(185,290)</td>
</tr>
<tr>
<td><strong>Revenues over expenditures and other financing uses</strong></td>
<td>442,580</td>
<td>442,580</td>
<td>1,124,910</td>
</tr>
<tr>
<td><strong>Fund balance - Beginning of year</strong></td>
<td>1,168,140</td>
<td>1,168,140</td>
<td>1,168,140</td>
</tr>
<tr>
<td><strong>Fund balance - End of year</strong></td>
<td>$ 1,610,720</td>
<td>$ 1,610,720</td>
<td>$ 2,293,050</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
SCHOOL LANE CHARTER SCHOOL
BUCKS COUNTY, PENNSYLVANIA

Basic Financial Statements

June 30, 2005

(With Independent Auditors' Report Thereon)
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June 30, 2005

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<td></td>
</tr>
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</tr>
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<td></td>
</tr>
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<td>Statement of Net Assets</td>
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<td></td>
</tr>
<tr>
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<td>17</td>
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</tr>
<tr>
<td>Required Supplementary Information</td>
<td></td>
</tr>
<tr>
<td>Budgetary Comparison Schedule – General Fund</td>
<td>29</td>
</tr>
</tbody>
</table>
Independent Auditors' Report On Basic Financial Statements

The Board of Trustees
School Lane Charter School
Bucks County, Pennsylvania:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of School Lane Charter School, Bucks County, Pennsylvania as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's administration. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the administration, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of School Lane Charter School, Bucks County, Pennsylvania, as of June 30, 2005, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison information on pages 2 through 7 and page 29, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

August 19, 2005

Hege Kramer Connell Murphy & Goldkamp, P.C.
The discussion and analysis of School Lane Charter School's financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at School Lane Charter School's financial performance as a whole. Please read it in conjunction with the basic financial statements.

Financial Statements

The accompanying financial statements have been prepared in accordance with GASB Statement Number 34 and present both government-wide and fund level financial statements using both accrual and modified accrual basis of accounting respectively.

Financial Overview

For the year ended June 30, 2005, the general fund budget reflected an addition to the unreserved fund balance of $199,103. The actual surplus was $740,695 which was $541,592 over budget. The additional surplus was primarily due to more revenue than budgeted.

For the year ended June 30, 2005 the government wide financial statements assets totaled $3,834,480 and reflected an increase of $522,085 over assets for the year ended June 30, 2004. The increase was due to investing in certificates of deposits from cash generated from the previous year surpluses.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$737,575</td>
<td>$524,733</td>
</tr>
<tr>
<td>Investments</td>
<td>$500,000</td>
<td>-</td>
</tr>
<tr>
<td>Other Receivables</td>
<td>$5,228</td>
<td>$2,184</td>
</tr>
<tr>
<td>Due from Other Governments</td>
<td>$486,186</td>
<td>$490,993</td>
</tr>
<tr>
<td>Inventories</td>
<td>$1,292</td>
<td>$2,095</td>
</tr>
<tr>
<td>Other Assets</td>
<td>$1,981</td>
<td>$1,800</td>
</tr>
<tr>
<td>Land &amp; Improvements</td>
<td>$6,344</td>
<td>$6,344</td>
</tr>
<tr>
<td>Buildings &amp; Building Improvements</td>
<td>$1,896,456</td>
<td>$1,896,456</td>
</tr>
<tr>
<td>Furniture &amp; Equipment</td>
<td>$1,402,797</td>
<td>$1,355,118</td>
</tr>
<tr>
<td>Less Accumulated Depreciation</td>
<td>$(1,203,379)</td>
<td>$(967,328)</td>
</tr>
</tbody>
</table>

Total Liabilities for the government wide financial statements for June 30, 2005 decreased $351,810 when compared to June 30, 2004. The majority of the decrease can be attributed to the following categories:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>2004-2005</th>
<th>2003-2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$78,611</td>
<td>$212,894</td>
</tr>
<tr>
<td>Accrued Salaries &amp; Benefits</td>
<td>$437,461</td>
<td>$394,337</td>
</tr>
<tr>
<td>Other Current Liabilities</td>
<td>$87,669</td>
<td>$78,423</td>
</tr>
<tr>
<td>Long Term Liabilities</td>
<td>$1,193,892</td>
<td>$1,463,789</td>
</tr>
</tbody>
</table>
The total net assets at June 30, 2005 amount to $2,036,847. For the year ended June 30, 2004 the total net assets were $1,162,952.

Revenue

The majority of general fund revenue is derived by local sources. For the ended June 30, 2005, local revenue totaled $4,868,211 versus $4,418,066 for the year ended June 30, 2004. The increase was approximately 10 percent over last year.

<table>
<thead>
<tr>
<th>Local Educational Agency</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bensalem Non Special Education</td>
<td>4%</td>
</tr>
<tr>
<td>Bensalem Special Education</td>
<td>9%</td>
</tr>
<tr>
<td>Bristol Non Special Education</td>
<td>12%</td>
</tr>
<tr>
<td>Bristol Special Education</td>
<td>10%</td>
</tr>
<tr>
<td>Philadelphia Non Special Education</td>
<td>9%</td>
</tr>
<tr>
<td>Philadelphia Special Education</td>
<td>10%</td>
</tr>
</tbody>
</table>

School Lane Charter School received $13,250 from the Pennsylvania Department of Education for reimbursement of leasing costs for the Annex. Lease payments made for 2004-2005 totaled $22,922. The net cost was $9,742.

Interest income for the year totaled over $11,000. This was approximately a 200% increase over last year. The increase can be attributed to maintaining higher cash balances.

School Lane Charter School partnered with Bensalem Township and received two grants totaling $2,325. The grants offset the cost of a new flag pole and repair of the façade of the front of the building.

School Lane Charter School’s IDEA funding increased over 23% when compared to 2003-2004.
Expenditures

In the first quarter, the Board of Trustees approved a 2% bonus for all staff members who returned to School Lane for the 2004-2005 school year.

During the 2004-2005 fiscal year School Lane Charter School refinanced the existing mortgage. School Lane was able to reduce the current interest rate from 7.5% to 6.25%.

In the third quarter, the Board of Trustees approved a $5,000 adjustment to the teacher’s salary scale.

The Board of Trustees approved the transfer of $50,000 to Capital Project Fund. In 2003-2004 the Board of Trustees approved a transfer of $75,000 in the Capital Reserve Fund. The majority of funds in the Capital Project Fund will cover the cost to repave the school yard during August 2005.

School Lane Charter School purchased a new math program for a 2005-2006 implementation. The cost of the new program totaled approximately $25,000.

School Lane Charter School paid an additional $25,000 to teachers for providing extra-curricular activities. In 2003-2004, extra-curricular activities cost $23,000.

School Lane Charter School provided various field trips and in-school presentations to the students. The total cost was approximately $22,000. In 2003-2004, field trips and school presentations cost totaled $27,000.

School Lane Charter School purchased student lockers for the 7th and 8th grade classes. The cost for these lockers was $9,900.
School Lane Charter School implemented a new school webpage through a third party vendor, WebGatherings. The new webpage allows teachers to maintain individual teacher webpages as well as post homework assignments for parents. The annual membership was $5,000.

School Lane Charter School upgraded the burglar alarm system on the first floor. The cost was $4,000.

School Lane Charter School implemented a wireless network in the main school building. The cost for the infrastructure was approximately $3,800. During the 2005-2006 school year, a mobile computer lab will be rolled out for student's use.

**Proprietary Fund**

Revenue was generated primarily from the sale of meals; state and federal subsidy through the Free and Reduce Lunch Program and an annual transfer from the general fund.

Revenue increased approximately 15% over 2003-2004. The majority of increase can be attributed to more students participating in the Free and Reduce Lunch Program.

Expenditures increased 17% over 2003-2004. Staffing and food costs increase as a result of serving more meals.

**Significant Future Events**

School Lane Charter School is planning an addition to the existing school building. School Lane will not be adding any additional students. The addition will be approximately 27,160 square feet and cost 8 million dollars. The addition will include a gymnasium, 9 new classrooms, health office, administrative office and 3 support classrooms.
2004-2005 School Overview

School Lane Charter School's educational goal is to prepare students to be competent and compassionate. By competent, we mean the ability to use essential literacy skills within all academic disciplines as well as in lifelong learning. By compassionate, we mean the ability to be equitable, cooperative, non-violent, gender fair, multicultural, environmentally conscious, caring and creative. Our curricula prepare students to think critically and solve problems in many contexts both individually and collaboratively. Our curricula, in conjunction with computer technology, help students address all the global, local and personal challenges that they will face in this 21st century.

Our literacy program is designed to model good reading and writing, teach essential reading/writing/thinking strategies and introduce students to many genres and modes of discourse. Within our humanities program, students bring historical perspective to contemporary issues and contemporary perspective to historical issues. This point of view, combined with best teaching practices, nurtures our students to become caring citizens and smart consumers. The mathematics program provides students with multiple ways to reason and solve problems. Our science program assures students of a hands-on approach to knowing the natural world through a scientific approach.

All academic curricula are designed to spiral throughout the grades, be developmentally sound and tap into the multiple intelligences. School Lane is an inclusive school. No one is excluded from classes or a lesson because of ability. We value that all students learn in a social setting. Regardless whether students have special needs, teachers are responsible to provide instruction to meet the needs of all students. Teachers plan lessons with consideration to differentiated instruction. They take into account the fact that students differ as learners and that all students need to be challenged as well as feel successful. Teachers identify various levels of readiness, interest and learning styles in order to design multiple tasks that occur in the classroom at the same time. Students are evaluated through multiple and alternative forms of assessment. We identify and track student strengths and challenges by maintaining Individualized Learning Plans (ILP) and Portfolios for every student. By collecting, reviewing and archiving student profiles, we are better able to customize learning.

Teachers plan collaboratively using a unit planning guide that fosters the focus on theme and essential questions as well as on the creation of end of unit exhibitions. Essential Questions (EQ's) reflect "big" questions that need to be pondered and studied. There is no one "correct" answer. Who is an American? What is a community of learners? Are animals necessary for man's survival? What is a good book? These are examples of essential questions that guide units. Essential questions challenge students' thinking. The questions prompt students to use new information to create new ideas or to raise further questions. The "so what" and "what if" nature of the questions inspire writing, performances and presentations.

Unit planning by the school also allows us to integrate our curriculum as much as possible. Each grade level has a humanities theme. This theme is used throughout the year to help focus the students' learning. We make connections to the theme in language arts, science and mathematics, art and performing arts. When making these cross curricular connections, our students are exposed to real world events. Assessment becomes authentic. Learning becomes grounded to understanding rather than just factual information.
Our integrated curriculum also is found in our approach to the concept of Sanctuary at School Lane. With our focus on Sanctuary, our goal is to create an integrated learning environment. In our integrated learning environment students bring the same academic strategies to real life situations. A sampling of these skills are: active listening, retelling, analyzing, inferring, brainstorming, considering multiple perspectives, questioning, summarizing, communicating with ethical procedures and diversity consciousness. When students are competent in these skills, they automatically tap into them when in a social or emotional conflict, which helps us create a Sanctuary. These are the types of skills that increase resilience, which is the key determinant for our students’ overall success in the future.

School Lane Charter School integrates components of our educational programs that directly teach emotional and social literacy with our curriculum as well. Students learn strategies for changing the outcomes of conflict, affective use of language, and conflict resolution. School Lane Charter School utilizes peer mediation and restorative justice to help solve on going conflicts. The components of our educational program that directly teach emotional and social literacy are: PATHS, Lions-Quest, Bully Prevention, and The Journeys Program.

We also incorporate principles and concepts of The Responsive Classroom. Every staff member is responsible for reading Ruth Charney’s *Teaching Children to Care*. This book supports us individually and as a community to create Sanctuary. “Rather than simply reacting to problems, we need to establish an ongoing curriculum in self-control, social participation and human development. Safe and effective communities are built through our commitment and conscious design; they grow from our best energies, time and attention.” Through our work on responsive classrooms, we focus on:

- Thoughtful, provocative definitions of discipline and community
- Setting priorities and expectations with children
- Stages in establishing classroom routines
- Generating rules with students and using logical consequences
- Conducting problem-solving circles
- Problem-solving teacher-student conferences
- Avoiding power struggles
- Choosing effective language and tone
- Setting goals with students and parents
- Morning meetings

The 2004-2005 school year for School Lane Charter School saw many changes. Our teachers began to meet as a grade group monthly to plan units under the curriculum framework. This planning process allowed teachers to be collaborative in sharing ideas and best practices. Teachers designed units under the backwards design model using essential questions to guide learning. Pennsylvania state standards and anchors were used as framework for skills addressed under each unit. School Lane re-introduced peer mediation to our students. Twenty students from grades five through eight were trained as peer mediators. Their training was used throughout the school year as a variety of conflicts arose that could be addressed under their guidance. This practice along with restorative justice and retraining of teachers in best practices for morning meeting helped to reduce our discipline incidents by sixteen percent. School Lane also hired a part time volunteer coordinator. Along with a structured parent data base, this additional team member allowed us to reach out to our parents when volunteer needs arose. Teachers had an avenue to call upon when they need parent support in the classroom. These exciting changes for the 2004-2005 school year have made School Lane Charter School a stronger educational entity.
## SCHOOL LANE CHARTER SCHOOL

### Statement of Net Assets

**June 30, 2005**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Governmental Activities</th>
<th>Business-Type Activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$734,935</td>
<td>2,640</td>
<td>737,575</td>
</tr>
<tr>
<td>Investments</td>
<td>500,000</td>
<td>-</td>
<td>500,000</td>
</tr>
<tr>
<td>Other receivables</td>
<td>5,228</td>
<td>-</td>
<td>5,228</td>
</tr>
<tr>
<td>Internal balances</td>
<td>165,290</td>
<td>(165,290)</td>
<td>-</td>
</tr>
<tr>
<td>Due from other governments</td>
<td>486,186</td>
<td>-</td>
<td>486,186</td>
</tr>
<tr>
<td>Inventories</td>
<td>-</td>
<td>1,292</td>
<td>1,292</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,981</td>
<td>-</td>
<td>1,981</td>
</tr>
<tr>
<td>Land and improvements</td>
<td>6,344</td>
<td>-</td>
<td>6,344</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>1,896,456</td>
<td>-</td>
<td>1,896,456</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>1,329,763</td>
<td>73,034</td>
<td>1,402,797</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(1,163,312)</td>
<td>(40,067)</td>
<td>(1,203,379)</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>3,962,871</strong></td>
<td><strong>(128,391)</strong></td>
<td><strong>3,834,480</strong></td>
</tr>
</tbody>
</table>

| Liabilities | | | |
| Accounts payable | 74,498 | 4,113 | 78,611 |
| Accrued salaries and benefits | 437,461 | - | 437,461 |
| Other current liabilities | 87,669 | - | 87,669 |
| **Long-term liabilities:** | | | |
| Portion due or payable within one year: | | | |
| Capital lease obligations | 91,163 | 1,866 | 93,029 |
| Mortgage payable | 53,147 | - | 53,147 |
| Portion due or payable after one year: | | | |
| Capital lease obligations | 17,611 | - | 17,611 |
| Mortgage payable | 1,030,105 | - | 1,030,105 |
| **Total liabilities** | **1,791,654** | **5,979** | **1,797,633** |

### Net Assets

| Invested in capital assets, net of related debt | 877,225 | 31,101 | 908,326 |
| Restricted for: | | | |
| Capital projects | 125,852 | - | 125,852 |
| Unrestricted (deficit) | 1,168,140 | (165,471) | 1,002,669 |
| **Total net assets** | **$2,171,217** | **(134,370)** | **2,036,847** |

*See accompanying notes to basic financial statements.*
<table>
<thead>
<tr>
<th>Description</th>
<th>Revenue</th>
<th>General Fund Revenues</th>
<th>Business Type Activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Services</td>
<td>1,494,276</td>
<td>4,481,516</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>361,064</td>
<td>642,372</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,855,339</td>
<td>5,123,888</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total net revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets beginning of year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets end of year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SCHOOL LANE CHARTER SCHOOL

Balance Sheet - Governmental Funds

June 30, 2005

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Capital Projects Fund</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$609,083</td>
<td>125,852</td>
<td>734,935</td>
</tr>
<tr>
<td>Investments</td>
<td>500,000</td>
<td>-</td>
<td>500,000</td>
</tr>
<tr>
<td>Interfund receivables</td>
<td>165,290</td>
<td>-</td>
<td>165,290</td>
</tr>
<tr>
<td>Other receivables</td>
<td>5,228</td>
<td>-</td>
<td>5,228</td>
</tr>
<tr>
<td>Intergovernmental receivables</td>
<td>486,186</td>
<td>-</td>
<td>486,186</td>
</tr>
<tr>
<td>Other assets</td>
<td>1,981</td>
<td>-</td>
<td>1,981</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$1,767,768</td>
<td>125,852</td>
<td>1,893,620</td>
</tr>
<tr>
<td><strong>Liabilities and fund balances:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$74,498</td>
<td>-</td>
<td>74,498</td>
</tr>
<tr>
<td>Accrued salaries and benefits</td>
<td>437,461</td>
<td>-</td>
<td>437,461</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>87,669</td>
<td>-</td>
<td>87,669</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$599,628</td>
<td>-</td>
<td>599,628</td>
</tr>
<tr>
<td><strong>Fund balances:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserved</td>
<td>-</td>
<td>125,852</td>
<td>125,852</td>
</tr>
<tr>
<td>Unreserved</td>
<td>1,168,140</td>
<td>-</td>
<td>1,168,140</td>
</tr>
<tr>
<td><strong>Total fund balances</strong></td>
<td>1,168,140</td>
<td>125,852</td>
<td>1,293,992</td>
</tr>
<tr>
<td><strong>Total liabilities and fund balances</strong></td>
<td>$1,767,768</td>
<td>125,852</td>
<td>1,893,620</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
SCHOOL LANE CHARTER SCHOOL

Reconciliation of Total Governmental Funds
Balance Sheet to the Statement of Net Assets

Total governmental fund balances $ 1,293,992

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in
governmental funds. The cost of the assets is $3,232,563
and the accumulated depreciation is $1,163,312. 2,069,251

Long-term liabilities, including mortgage payable, are not
due and payable in the current period and therefore are not
reported as liabilities in the fund. Those liabilities consist of:
Capital lease obligations $ (108,774)
Mortgage payable (1,083,252) (1,192,026)
Total net assets of governmental activities $ 2,171,217

See accompanying notes to basic financial statements.
SCHOOL LANE CHARTER SCHOOL

Statement of Revenues,
Expenditures and Changes in Fund Balances -
Governmental Funds

Year Ended June 30, 2005

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>General Fund</th>
<th>Capital Projects Fund</th>
<th>Total Governmental Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local sources</td>
<td>$ 4,868,211</td>
<td>850</td>
<td>4,869,061</td>
</tr>
<tr>
<td>State sources</td>
<td>163,227</td>
<td></td>
<td>163,227</td>
</tr>
<tr>
<td>Federal sources</td>
<td>188,008</td>
<td></td>
<td>188,008</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>5,219,446</strong></td>
<td>850</td>
<td><strong>5,220,296</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures:</th>
<th>General Fund</th>
<th>Capital Projects Fund</th>
<th>Total Governmental Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>2,759,916</td>
<td></td>
<td>2,759,916</td>
</tr>
<tr>
<td>Support services</td>
<td>1,268,191</td>
<td></td>
<td>1,268,191</td>
</tr>
<tr>
<td>Operation of non-instructional services</td>
<td>586</td>
<td></td>
<td>586</td>
</tr>
<tr>
<td>Facilities acquisition, construction and improvement services</td>
<td>25,226</td>
<td></td>
<td>25,226</td>
</tr>
<tr>
<td>Debt service</td>
<td>1,498,832</td>
<td></td>
<td>1,498,832</td>
</tr>
<tr>
<td><strong>Total expenditures</strong></td>
<td><strong>5,552,751</strong></td>
<td></td>
<td><strong>5,552,751</strong></td>
</tr>
</tbody>
</table>

Excess (deficiency) of revenues over expenditures (333,305)     850     (323,455)

Other financing sources (uses):
- Interfund transfers (76,000)      50,000      (26,000)
- Mortgage proceeds 1,150,000        -           1,150,000

Total other financing sources 1,074,000     50,000     1,124,000

Excess of revenues and other financing sources over expenditures and other financing uses 740,695     50,850     791,545

Fund balance - beginning of year 427,445     75,002     502,447

Fund balance - end of year $ 1,168,140 125,852 1,293,992

See accompanying notes to basic financial statements.
SCHOOL LANE CHARTER SCHOOL

Reconciliation of the Governmental Funds Statement of
Revenues, Expenditures and Changes in Fund Balances to the
Statement of Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net change in fund balances - governmental funds</td>
<td>$791,545</td>
</tr>
<tr>
<td>Capital outlays are reported in governmental funds as expenditures. However,</td>
<td></td>
</tr>
<tr>
<td>in the statement of activities, the cost of those assets is allocated over their</td>
<td></td>
</tr>
<tr>
<td>useful lives as depreciation expense. This is the amount by which depreciation</td>
<td></td>
</tr>
<tr>
<td>exceeds capital outlays in the period.</td>
<td>(182,286)</td>
</tr>
<tr>
<td>Mortgage proceeds provide current financial resources to governmental funds,</td>
<td></td>
</tr>
<tr>
<td>but issuing debt increases long-term liabilities in the statement of net assets.</td>
<td>(1,150,000)</td>
</tr>
<tr>
<td>Repayment of mortgage principal is an expenditure in the governmental funds,</td>
<td></td>
</tr>
<tr>
<td>but the repayment reduces long-term liabilities in the statement of net assets.</td>
<td>1,162,499</td>
</tr>
<tr>
<td>Repayment of capital lease principal is an expenditure in the governmental funds,</td>
<td></td>
</tr>
<tr>
<td>but the repayment reduces long-term liabilities in the statement of net assets.</td>
<td>246,431</td>
</tr>
<tr>
<td>Change in net assets of governmental activities</td>
<td>$868,189</td>
</tr>
</tbody>
</table>

See accompanying notes to basic financial statements.
# SCHOOL LANE CHARTER SCHOOL

**Statement of Net Assets - Proprietary Fund**

June 30, 2005

<table>
<thead>
<tr>
<th>Assets</th>
<th>Food Service Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$2,640</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,292</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>3,932</strong></td>
</tr>
<tr>
<td>Property and equipment</td>
<td>73,034</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(40,067)</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>36,899</strong></td>
</tr>
</tbody>
</table>

| Liabilities                 |                   |
| Current liabilities:        |                   |
| Accounts payable            | 4,113             |
| Current portion of capital lease obligation | 1,866         |
| Due to other funds          | 165,290           |
| **Total current liabilities** | **171,269**    |

| Net Assets                  |                   |
| Invested in capital assets  | 31,101            |
| Unrestricted (deficit)       | (165,471)         |
| **Total net assets (deficit)** | **(134,370)** |

See accompanying notes to basic financial statements.
SCHOOL LANE CHARTER SCHOOL

Statement of Revenues, Expenses and Changes
In Fund Net Assets - Proprietary Fund

Year Ended June 30, 2005

Operating revenues:
Food service revenue

Total operating revenues

Operating expenses:
Personnel services - salaries and benefits
Supplies
Depreciation
Other purchased services

Total operating expenses

Operating loss

Non-operating revenues:
State sources
Federal sources

Total non-operating revenues

Loss before transfers

Transfers in

Net income

Net assets (deficit)-
Beginning of year

Net assets (deficit) -
End of year

Food Service Fund

$ 68,984

68,984

65,837
82,108
6,086
1,679

155,710

(86,726)

9,439
56,993

66,432

(20,294)

26,000

5,706

(140,076)

$ (134,370)

See accompanying notes to basic financial statements.
SCHOOL LANE CHARTER SCHOOL

Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2005

<table>
<thead>
<tr>
<th>Food Service Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
</tr>
<tr>
<td>Cash received from customers $68,983</td>
</tr>
<tr>
<td>Payments to suppliers (91,123)</td>
</tr>
<tr>
<td>Payments to employees (65,837)</td>
</tr>
<tr>
<td>Net cash used for operating activities (87,977)</td>
</tr>
<tr>
<td>Cash flows from noncapital financing activities:</td>
</tr>
<tr>
<td>Advances from other funds 26,000</td>
</tr>
<tr>
<td>State sources 9,439</td>
</tr>
<tr>
<td>Federal sources 56,993</td>
</tr>
<tr>
<td>Net cash provided by noncapital financing activities 92,432</td>
</tr>
<tr>
<td>Cash flows from capital and related financing activities:</td>
</tr>
<tr>
<td>Principal paid on capital lease (10,967)</td>
</tr>
<tr>
<td>Net cash used for capital and related financing activities (10,967)</td>
</tr>
<tr>
<td>Net decrease in cash (6,512)</td>
</tr>
<tr>
<td>Cash at beginning of year 9,152</td>
</tr>
<tr>
<td>Cash at end of year $2,640</td>
</tr>
</tbody>
</table>

Reconciliation of operating loss to net cash used for operating activities:
Operating loss $86,726
Adjustments to reconcile loss from operations to net cash used for operating activities:
Depreciation 6,086
(Increase) decrease in:
Inventory 803
Increase (decrease) in:
Accounts payable (5,729)
Due to other funds (2,411)
Net cash used for operating activities (87,977)

See accompanying notes to basic financial statements.
SCHOOL LANE CHARTER SCHOOL

Statement of Net Assets - Fiduciary Fund

June 30, 2005

Assets

Current assets:
Cash

Total assets

Agency Fund

$ 6,305

Liabilities

Current liabilities:
Due to student groups

Total liabilities

$ 6,305

$ 6,305

See accompanying notes to basic financial statements.
School Lane Charter School was initially granted a Charter to operate a public school, by the Commonwealth of Pennsylvania, for the period commencing on July 1, 1998 and ending on June 30, 2003. The School has renewed its Charter until June 30, 2008.

School Lane Charter School (School Lane) is located in Bucks County, Pennsylvania, and provides a full range of educational services appropriate to grade levels kindergarten through 8 to students from surrounding districts. School Lane has a nine member appointed board of trustees who oversee the operations of the School. School Lane is composed of one elementary school serving approximately 550 students.

The accounting policies of School Lane conform to generally accepted accounting principles in the United States of America as applicable to governments. The following is a summary of the more significant policies and practices of School Lane:

(a) **Fund Accounting**

The accounts of School Lane are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses. The funds are grouped into three types. The following is a description of the fund types used by School Lane in the accompanying basic financial statements.

**Governmental Fund Types**

General Fund - This is the general operating fund of School Lane. All activities of School Lane are accounted for through this fund except for those required to be accounted for in another fund. This fund is reported as a major fund.

Capital Projects Fund - This is a board designated fund used to account for financial resources allocated for the improvement of the School’s facilities.
SCHOOL LANE CHARTER SCHOOL

Notes To Basic Financial Statements

(1) Significant Accounting Policies, continued

(a) Fund Accounting, continued

Proprietary Fund Type

Food Service Fund - This fund is used to account for School Lane's food service operations that are financed and operated in a manner similar to private business enterprises. The fund accounts for all revenues, food purchases, and costs and expenses for its Food Service Program. This fund is reported as a major fund.

Fiduciary Fund Type

Agency Fund - The Agency Fund accounts for the receipts and disbursements of monies from student activity organizations. These organizations exist at the explicit approval, subject to revocation, of the School's governing body. This accounting reflects the School's agency relationship with the student activity organizations. Accordingly, receipts and disbursements of the Agency Fund are not included in the revenues and expenditures of the school.

(b) Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the School as a whole excluding fiduciary activities such as the agency fund. Individual funds are not displayed but the statements distinguish governmental activities and general revenues from business-type activities (generally financed in whole or in part with fees charged for services).
SCHOOL LANE CHARTER SCHOOL

Notes To Basic Financial Statements

(1) Significant Accounting Policies, continued

(b) Government-Wide and Fund Financial Statements, continued

Government-Wide Financial Statements, continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees and other charges to users of the School’s services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the School are prepared in accordance with accounting principles generally accepted in the United States of America. The School’s reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The government-wide and proprietary fund financial statements apply Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.
SCHOOL LANE CHARTER SCHOOL

Notes To Basic Financial Statements

(1) Significant Accounting Policies, continued

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation, continued

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges for services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as needed.
SCHOOL LANE CHARTER SCHOOL

Notes To Basic Financial Statements

(1) Significant Accounting Policies, continued

(d) Revenue from State and Federal Sources

State subsidies represent current year entitlements and are recognized as revenue in the current fiscal year even though funds may be received in the following year. Federal Program funds applicable to expenditures of the current fiscal year but expected to be received in the next fiscal year are accrued as current year revenues.

(e) Capital Assets and Depreciation

The School's property, plant and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary fund capital assets are also reported in their fund financial statements. Donated assets are stated at fair value on the date donated. The District generally capitalizes assets with a cost of $1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are generally as follows:

- Land improvements, building and building improvements: 40 years
- Furniture, fixtures and equipment: 3 - 10 years

(f) Long-Term Debt

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities.

(g) Budgetary Data

School Lane follows the following procedures in establishing the budgetary data reflected in the basic financial statements:

(i) Prior to May 31, the Board submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
SCHOOL LANE CHARTER SCHOOL

Notes To Basic Financial Statements

(1) Significant Accounting Policies, continued

(g) Budgetary Data, continued

(2) Prior to June 30, the budget is legally enacted through passage of a resolution.

(3) Legal budgetary control is maintained by the Board at the departmental level. Transfers between departments, whether between funds or within a fund, or revisions that alter the total revenues and expenditures of any fund must be approved by the Board. Budgetary information in the combined operating statements is presented at or below the legal level of budgetary control.

(4) Budgetary data is included in School Lane's management information system and is employed as a management control device during the year.

(5) The budget for the General Fund is adopted substantially on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

(h) Financial Reporting Entity

Generally accepted accounting principles require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies or entities which should be presented with the School Lane Charter School.

(i) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
(1) Significant Accounting Policies, continued

(i) Pension Plan

Substantially all full-time and part-time employees of School Lane participate in a cost-sharing multiple employer defined benefit pension plan. School Lane recognizes annual pension expenditures or expenses equal to its contractually required contributions, subject to the modified accrual basis of accounting in governmental funds. (That is, if contributions from governmental funds are required but not made, the difference would not be reported as an expenditure until payable with expendable, available financial resources.) School Lane made all required contributions for the year ended June 30, 2005, and has recognized them as expenditures in the governmental fund.

(k) Inventories

Inventories of the Food Service Fund are valued at the lower of cost, determined by the first-in first-out method, or market.

(2) Cash and Investments

Under Section 440.1 of the Public School Code of 1949, as amended, School Lane is permitted to invest funds in the following types of investments:

Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

Deposits in savings accounts or time deposits or share accounts of institutions insured by the Federal Deposit Insurance Corporation to the extent that such accounts are so insured and for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

The deposit and investment policy of School Lane adheres to state statutes. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of School Lane. Custodial credit risk is the risk that in the event of a bank failure, the School’s deposits may not be returned to it. For this classification certificates of deposit are considered deposits. The School does not have a deposit policy for custodial credit risk. As of June 30, 2005, $554,391 of the School’s bank balance of $1,254,391 was exposed to custodial credit risk of deposits uninsured and collateral held by the pledging financial institution, or its trust department, but not in the School’s name.
(3) Capital Assets

A summary of changes in the capital assets is as follows:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Balance</th>
<th>Additions</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2004</td>
<td></td>
<td>June 30, 2005</td>
</tr>
<tr>
<td>Governmental activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and land improvements (not depreciated)</td>
<td>$ 6,344</td>
<td>-</td>
<td>6,344</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>1,896,456</td>
<td>-</td>
<td>1,896,456</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>1,282,084</td>
<td>47,679</td>
<td>1,329,763</td>
</tr>
<tr>
<td>Total historical cost</td>
<td>3,184,884</td>
<td>47,679</td>
<td>3,232,563</td>
</tr>
<tr>
<td>Less accumulated depreciation:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>933,347</td>
<td>229,965</td>
<td>1,163,312</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>700,556</td>
<td>182,553</td>
<td>883,109</td>
</tr>
<tr>
<td>Total accumulated depreciation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental activities, net</td>
<td>$ 2,251,537</td>
<td>(182,286)</td>
<td>2,069,251</td>
</tr>
<tr>
<td>Business-type activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>$ 73,034</td>
<td>-</td>
<td>73,034</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(33,981)</td>
<td>(6,086)</td>
<td>(40,067)</td>
</tr>
<tr>
<td>Business-type activities, net</td>
<td>$ 39,053</td>
<td>(6,086)</td>
<td>32,967</td>
</tr>
</tbody>
</table>

Depreciation expense was charged to governmental functions as follows:

Instruction:
- Regular $ 91,277
- Special 27,383
- Vocational 18,255

Support services:
- Pupil 9,128
- Administration 9,128
- Business 9,128
- Operation and maintenance of plant 18,255
- Facilities acquisition, construction and improvement services 47,411

$ 229,965
SCHOOL LANE CHARTER SCHOOL

Notes To Basic Financial Statements

(4) Mortgage Payable

An analysis of the mortgage payable at June 30, 2005, including changes for the year, is presented below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Interest Rate</th>
<th>Balance June 30, 2004</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance June 30, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>DNB First Reinvestment Fund</td>
<td>6.25%</td>
<td>$</td>
<td>-</td>
<td>1,150,000</td>
<td>(66,748)</td>
</tr>
<tr>
<td></td>
<td>7.50%</td>
<td>1,095,751</td>
<td>-</td>
<td>(1,095,751)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$ 1,095,751</td>
<td>1,150,000</td>
<td>(1,162,499)</td>
<td>1,083,252</td>
</tr>
</tbody>
</table>

On October 26, 2004, School Lane borrowed $1,150,000 from DNB First which was used to pay off the mortgage payable to the Reinvestment Fund. The DNB First mortgage is payable in sixty monthly principal and interest installments of $9,945 through November 1, 2009 then 59 monthly installments at a variable interest rate and a final payment due November 1, 2014 on the unpaid balance.

Maturities of the mortgage payable are as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$53,147</td>
<td>66,193</td>
<td>119,340</td>
</tr>
<tr>
<td>2007</td>
<td>56,561</td>
<td>62,779</td>
<td>119,340</td>
</tr>
<tr>
<td>2008</td>
<td>60,199</td>
<td>59,141</td>
<td>119,340</td>
</tr>
<tr>
<td>2009</td>
<td>64,071</td>
<td>55,269</td>
<td>119,340</td>
</tr>
<tr>
<td>2010</td>
<td>68,193</td>
<td>51,147</td>
<td>119,340</td>
</tr>
<tr>
<td>2011-2015</td>
<td>781,081</td>
<td>169,440</td>
<td>950,521</td>
</tr>
</tbody>
</table>

$1,083,252 463,969 1,547,221

(5) Capital Leases

In September 2000, School Lane entered into a long-term lease agreement for the purchase of property. The amount of the lease was for $800,000 of which approximately $352,000 was used to pay off the previous lease obligation. The lease is classified as a capital lease and expires in 2006.

In August 2003, School Lane entered into a long-term lease agreement for the purchase of computer equipment. The amount of the lease was for $189,052 and it is classified as a capital lease.
SCHOOL LANE CHARTER SCHOOL

Notes To Basic Financial Statements

(5) Capital Leases, continued

The leases are reported as governmental activities and business-type activities in the statement of net assets. The School’s rental payments totaled $265,707 for governmental activities and $11,648 for business activities of which $246,431 and $10,972 represent principal for the governmental activities and business activities for the year ended June 30, 2005, respectively.

Building improvements, furniture and equipment include the following leased property under the capital leases at June 30, 2005:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental activities</td>
<td>$627,756</td>
</tr>
<tr>
<td>Business activities</td>
<td>$59,366</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(499,951)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$187,171</strong></td>
</tr>
</tbody>
</table>

The following is a schedule of future minimum lease payments for the capital leases as of June 30, 2005:

<table>
<thead>
<tr>
<th>Year Ended June 30</th>
<th>Principal Amount</th>
<th>Interest Amount</th>
<th>Lease Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$93,029</td>
<td>4,206</td>
<td>97,235</td>
</tr>
<tr>
<td>2007</td>
<td>17,611</td>
<td>245</td>
<td>17,856</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>110,640</strong></td>
<td><strong>4,451</strong></td>
<td><strong>115,091</strong></td>
</tr>
</tbody>
</table>

Capital lease obligations due within one year amount to $93,029 and obligations due after one year amount to $17,611.

(6) Defined Benefit Pension Plan

Plan Description

School Lane contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by Pennsylvania Public School Employees’ Retirement System (PSERS). Benefit provisions of the plan are established under the provisions of the Pennsylvania Public School Employees’ Retirement Code (the Code) and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. It also provides for refunds of a member’s accumulated contribution upon termination of a member’s employment in the public school sector. PSERS issues a comprehensive annual information financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PSERS, P.O. Box 125, Harrisburg, PA 17108-0125.
Defined Benefit Pension Plan, continued

Funding Policy

The contribution policy is established by the Code and requires contributions by active members and employers and the Commonwealth. Most active members are required to contribute 5.25 percent of their compensation if they joined the plan before July 22, 1983, and 6.25 percent if they joined on or after that date. Members enrolled at July 1, 2001 had to elect to maintain the same contribution rate as stated above or change to a higher contribution rate that provides greater retirement benefits. The new higher contribution rates effective January 1, 2002, are 6.5% if the member joined prior to July 22, 1983 and 7.5% if they joined on or after that date. The contributions required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payroll during the period for which the amount is determined. School Lane is required to pay the entire employer contribution rate and is reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29 of 1994), which is at least one-half of the total employer rate. School Lane's contributions to PSERS for the years ending June 30, 2005, 2004 and 2003 were $92,860, $115,348 and $31,108, respectively. Those amounts are equal to the required contribution for each year.

Tax Status

School Lane qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code. Accordingly, no federal or state income tax has been recognized for the year ended June 30, 2005.

Fund Balances (Deficit)

The Food Service Fund has a deficit of $134,370 at June 30, 2005. In the Food Service Fund, revenues exceed expenses by $5,706 for the year ended June 30, 2005. It is the intention of School Lane to fund this deficiency with revenue increases and expense reductions in future years.

Litigation

School Lane is defendant in several legal actions at June 30, 2005. In the opinion of School Lane officials, the ultimate outcome of these actions will not have a material adverse effect on School Lane's financial statements.
### SCHOOL LANE CHARTER SCHOOL

**Budgetary Comparison Schedule - General Fund**

(Required Supplementary Information)

**Year Ended June 30, 2005**

<table>
<thead>
<tr>
<th>Budgeted Amounts</th>
<th>Original</th>
<th>Final</th>
<th>Actual (Budgetary Basis)</th>
<th>Variance with Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Positive (Negative)</td>
</tr>
</tbody>
</table>

#### Revenues:

- **Local sources**
  - $4,409,530
- **State sources**
  - 127,710
- **Federal sources**
  - 263,680

**Total revenues**

- 4,806,920

#### Expenditures:

**Instruction:**

- **Regular programs-elementary**
  - 1,894,306
- **Special programs-elementary**
  - 114,555
- **Vocational**
  - 89,226
- **Other instructional programs-elementary**
  - 222,690

**Total instruction**

- 2,220,777

**Support services:**

- **Pupil personnel**
  - 117,650
- **Instructional staff**
  - 50,485
- **Administration**
  - 670,669
- **Pupil health**
  - 61,222
- **Business**
  - 55,459
- **Operation and maintenance of plant services**
  - 520,228

**Total support services**

- 1,484,714

**Operation of non-instructional services:**

- **Student activities**
  - 2,000
- **Community services**
  - 500

**Total operation of non-instructional services**

- 2,500

**Facilities acquisition, construction and improvement services**

- -

**Debt service**

- 379,826

**Total expenditures**

- 4,557,817

**Revenues over (under) expenditures**

- 219,103

**Other financing sources (uses):**

- **Interfund transfers**
  - (20,000)
- **Mortgage proceeds**
  - -

**Revenues and other financing sources over expenditures and other financing uses**

- 199,103

**Fund balance - Beginning of year**

- 427,445

**Fund balance - End of year**

- 626,548

---

See accompanying notes to basic financial statements.
DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AND TRUST AGREEMENT, THE LEASE AND THE MORTGAGE
This summary should not be regarded as a full statement of the documents themselves, or of the portions summarized. Reference is made to the documents in their entirety, copies of which are on file in the corporate trust office of the Trustee in Philadelphia, Pennsylvania, for the complete statements of the provisions thereof.

Definitions of Certain Terms

The following are the definitions of certain terms used in the Agreement, the Lease and the Mortgage. All capitalized terms used in this Appendix and not defined below shall have the meanings given to such terms in the forepart of this Official Statement.

"Accountant" means a firm of independent certified public accountants licensed to practice in the Commonwealth, (which may be the firm of accountants that regularly audits the books and accounts of the Borrower or the School) from time to time selected by the Borrower or the School, as applicable.

"Additional Debt" means any Debt incurred by the Borrower subsequent to the issuance of the 2007 Bonds.

"Architect" means a person or firm which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Borrower and which is retained for the purpose of passing on questions relating to the design and construction of any particular facility, has all licenses and certifications necessary for the performance of such services, and has a favorable reputation for skill and experience in performing similar services in respect of Mortgaged Property of a comparable size and nature.

"Authorized Officer" means (i) in the case of the Authority, the Chairman or Vice Chairman of the Authority, and when used with reference to an act or document of the Authority also means any other person authorized to perform the act or execute the document, (ii) in the case of the Borrower, the President, Vice President or Secretary and when used with reference to an act or document of the Borrower, also means any other person or persons authorized to perform the act or execute the document and (iii) in the case of the School, the Chief Executive Officer of the School, and when used with reference to an act or document of the School, also means any other person or persons authorized to perform the act or execute the document.

"Bond Counsel" means Latsha Davis Yohe & McKenna, P.C. or such other firm of nationally recognized attorneys with experience in matters relating to the issuance of obligations by states and their political subdivisions is nationally recognized.

"Bond Documents" means the Agreement, the Lease and the Mortgage.

"Bond Funds" means, together, the Bond Principal Fund and the Bond Interest Fund.

"Bonds" means, collectively (i) the 2007 Bonds, (ii) except as otherwise expressly excepted by the terms of any specific section of this Loan and Trust Agreement, all Parity Bonds, and (ii) except as otherwise provided in the Agreement, any Bond or Bonds duly issued in exchange or replacement therefor and, where appropriate with respect to redemption and required purchase, portions thereof in authorized denominations.

"Borrower Net Income Available for Debt Service" means, for any period of determination thereof, Pledged Revenues of the Borrower for such period, plus all interest earnings on moneys held in the Debt Service Reserve Fund established under the Agreement minus its total Operating Expenses for such period but excluding (i) any profits or losses which would be regarded as extraordinary items under Generally Accepted Accounting Principles, (ii) gain or loss in the extinguishment of indebtedness, (iii) proceeds of 2007 Bonds and any other Debt permitted by the Agreement, (iv) proceeds of insurance
policies, other than policies for business interruption insurance, maintained by or for the benefit of the Borrower, the proceeds of any sale, transfer or other disposition of the Project or any other of the Borrower’s assets by the Borrower, and any condemnation or any other damage award received by or owing to the Borrower and (v) any payments made or received by the Borrower on an Interest Rate Hedge which are taken into account in calculating the Debt Service Requirements on an Obligation or gains or losses in the value of any Interest Rate Hedge.

"Borrower Debt Service Coverage Ratio" means, for any Fiscal Year, the ratio obtained by dividing the Borrower Net Income Available for Debt Service for such Fiscal Year by the Maximum Annual Debt Service.

"Business Day" means any day other than a Saturday, Sunday or other day on which the Federal Reserve System is closed or on which banks in the city in which is located the principal corporate trust office of the Trustee are authorized or obligated by law or executive order to close, as consistent with the closing of the New York Stock Exchange.

"Capital Additions" means all property or interests in property, real, personal and mixed (a) which constitute additions, improvements or extraordinary repairs to or replacements of all or any part of the Mortgaged Property, and (b) the cost of which is properly capitalized under generally accepted accounting principles; provided that the Project shall not constitute a Capital Addition.

"Collateral" means Accounts, Chattel Paper, Deposit Accounts, Documents, General Intangibles, Goods, including without limitation, Equipment, Inventory, Fixtures and Accessions, Instruments, Investment Property (as those terms are defined in the Uniform Commercial Code), Revenues, monies which at any time the School shall have or have the right to have in its possession, books and records evidencing or relating to the foregoing, including, without limitation, all monies due or to become due to the School from the School District of Philadelphia and the Commonwealth (but excluding all student fees, graduation fees and prom fees and revenues received from the United States of America that are prohibited from being transferred under applicable law), and all gifts, grants, bequests, donations and contributions, except those heretofore or hereafter made, designated at the time of making by the donor or maker as being for certain specified purposes inconsistent with the application thereof to the payments due from the School under the Lease and except any income derived therefrom to the extent required by such designation or restriction, and all Proceeds of the foregoing (as such term is defined in the Uniform Commercial Code).

"Construction Contracts" means the contracts with the Borrower and any of its contractors relating to the construction of the Project.

"Costs of Issuance" means underwriter’s discount or fees, counsel fees (including Bond counsel, Authority’s counsel, counsel to the Borrower, Trustee’s counsel, and any other specialized counsel fees incurred in connection with the issuance of the 2007 Bonds and any other Obligations), any bond insurance premium, financial advisor fees, rating agency fees, Trustee’s fee incurred in connection with the issuance of the 2007 Bonds and any other Obligations and the Trustee’s acceptance fee and first year administration fee, Accountant fees related to the issuance of the 2007 Bonds or any other obligations, printing costs, costs incurred in connection with the public approval process for the 2007 Bonds and any other Obligations, costs of engineering and feasibility studies necessary to the issuance of the Obligations and any other fees or costs which are permitted to be financed under the Act.

"Counsel" means an attorney or firm of attorneys selected by the Borrower and (except as otherwise provided in the Agreement) may either be counsel (including inside counsel) for the Borrower or for the Trustee.
"Credit Facility" means any irrevocable transferable letter of credit, insurance policy, guaranty or other agreement constituting a credit enhancement or liquidity facility which, if applicable to any Obligations, is satisfactory to the Authority and the Borrower.

"Date of Original Issuance" means the date on which the Authority initially issued the 2007 Bonds.

"Debt" means all indebtedness of the Borrower or the School, as applicable, for borrowed moneys, whether long-term or short-term, parity or subordinate secured or unsecured, including, (without limitation) any indebtedness which has been incurred or assumed in connection with the Project, all indebtedness, no matter how created, secured by the Project, the Pledged Revenues or the School Revenues, whether or not such indebtedness is assumed by the Borrower or the School, as applicable, any leases required to be capitalized in accordance with Generally Accepted Accounting Principles, installment purchase obligations, guaranties or Interest Rate Hedges. Nothing in this definition or otherwise shall be construed to count Debt more than once, and Debt incurred pursuant to a Credit Facility shall be counted only to the extent the reimbursement obligation on amounts drawn or, in the reasonable judgment of the Borrower, likely to be drawn, on the Credit Facility exceeds the obligation on the Debt for which such Credit Facility is provided. Debt shall not include Operating Lease Obligations.

"Debt Service Requirements" means, for any period of time, the aggregate of the scheduled payments to be made in respect of principal of and interest on Long-Term Debt of the Borrower or the School, as applicable (other than from amounts irrevocably deposited with the Trustee or otherwise held for the benefit of a lender under terms sufficient to pay all or a portion of the principal or redemption price of and interest on, as the same shall become due or payable upon redemption, any Long-Term Debt which would otherwise be considered Outstanding, including funds held in connection with an advance refunding or a cross-over refunding), during such period other than Non-Recourse Debt. In addition, for the purposes of the computation of Debt Service Requirements, the Borrower or the School, as applicable, may subtract from interest due on Long-Term Debt or Operating Lease Obligations, as applicable, any accrued interest and capitalized interest which is available and is to be applied to make such interest payment in the year such interest becomes due. For purposes of the computation of Debt Service Requirements, the aggregate annual principal and interest payments on the Indebtedness subject to a Guaranty shall be included in the computation thereof.

Any portion of any Debt of the Borrower or the School for which an Interest Rate Hedge has been obtained shall be deemed to bear interest as follows: (a) if, at the time of the calculation, the rating of the provider of such Interest Rate Hedge (or any guarantor or contingent swap counterparty thereof) is in one of the two highest rating categories of S&P, then the Indebtedness shall be deemed to bear interest for the period of time that such Interest Rate Hedge is in effect at a rate which takes into account the interest payments to be made by the Borrower or the School, as applicable, on such Indebtedness and the net payments to be made or received thereby on such Interest Rate Hedge; and (b) if such rating does not meet the requirements of clause (a), then the Indebtedness shall be deemed to bear interest for the period of time that such Interest Rate Hedge is in effect at a rate which takes into account the interest payments to be made by the Borrower or the School, as applicable, on such Indebtedness and the gross payments to be made by the Borrower or the School, as applicable, on such Interest Rate Hedge (without adjustment for payments to be received thereby on such Interest Rate Hedge).

"Debt Service Reserve Fund Credit Facility" means any liquidity facility, letter of credit, insurance policy, guaranty, line of credit, surety bond or other similar credit or liquidity facility held to the credit of the Debt Service Reserve Fund.

"Debt Service Reserve Fund Requirement" means an amount equal to the least of: (a) 10% of the principal amount of the 2007 Bonds (or, if the 2007 Bonds have more than a de minimis amount (as defined in Treas. Regs. 1.148-1(b)) of original issue discount or premium, the issue price (as defined in
"Defeasance Obligations" means Government Obligations and obligations described in paragraph (a) of the definition of Permitted Investments.

"Event of Bankruptcy" means (i) the Borrower has commenced a voluntary case under the federal bankruptcy laws, or has become insolvent or unable to pay its debts as they become due, or has made an assignment for the benefit of creditors, or has applied for, consented to or acquiesced in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its Property or Pledged Revenues; (ii) a trustee, receiver, custodian or similar official or agent has been appointed for the Borrower or for any substantial part of its Property or Pledged Revenues and either such trustee or receiver shall not be discharged within ninety days; or (iii) the Borrower has had an order or decree for relief in an involuntary case under the federal bankruptcy laws entered against it, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors has been brought against it and either such order or decree for relief is not discharged or vacated within ninety days.

"Event of Default" means, with respect to the Agreement any one of the events set forth under "The Loan and Trust Agreement - Events of Default" below, and, with respect to the Lease, any one of the events set forth under "The Lease - Events of Default" below.

"Excluded Debt" means Non-Recourse Debt, Subordinated Debt or Debt under a line of credit permitted under the Lease.

"Facilities" means all of the land, buildings (including the School Buildings) and equipment owned or leased by the Borrower, at any time.

"Fiscal Year" means the fiscal year ending June 30, or any other fiscal year designated from time to time in writing by the Borrower or the School, as applicable, to the Trustee.

"Fitch" means Fitch IBCA, Inc.

"Funds" means any of the funds established under the Agreement.

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

"Government Obligations" means obligations of, or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury or any Federal Reserve Bank).

"Guaranty" means all obligations of the Borrower or the School, as applicable, guaranteeing in any manner, whether directly or indirectly, any obligation of any other person which would, if such other person were the Borrower or the School, constitute Debt under the Agreement with respect to the Borrower or under the Lease with respect to the School.

"Holder", "Owner" or "Registered Owner" means the registered owner of any of the Obligations from time to time as shown in the books kept by the Trustee as registrar and transfer agent.
"Insurance Consultant" means an independent firm of insurance agents, brokers or consultants which is appointed by the Borrower and is not unsatisfactory to the Trustee or the Authority, for the purpose of reviewing and recommending insurance coverages for the Mortgaged Property and operations of the Borrower, and has a favorable reputation for skill and experience in performing such services in respect of Mortgaged Property and operations of a comparable size and nature.

"Interest Payment Date" means each March 15 and September 15, commencing September 15, 2007; provided that, if any such date is not a Business Day, any payment due on such date may be made on the next Business Day without additional interest and with the same force and effect as if made on the specified date for such payment.

"Interest Rate Hedge" means an agreement, expressly identified as being entered into in order to hedge the interest payable on all or a portion of any Debt, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g. a call, put, cap, floor or collar) and which agreement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

"Interested Holder" means (i) the Owner of $1,000,000 or more in aggregate principal amount of the 2007 Bonds; and (ii) any other 2007 Bondholder who has filed a written request with the Trustee to receive all reports delivered to the Trustee.

"Lien" means any mortgage or pledge of, security interest in, or lien or encumbrance on, any property which secures any indebtedness or other obligation of the Borrower or the School, as applicable, or which secures any obligation of any Person other than an obligation to the Borrower or the School, as applicable, excluding liens applicable to property in which the Borrower or the School, as applicable, has only a leasehold interest unless the lien secures Debt.

"Long-Term Debt" means all Debt (and in the case of the School, Operating Lease Obligations) including: (i) Debt with respect to money borrowed for an original term, or renewable at the option of the Borrower for a period from the date originally incurred, longer than one year; (ii) Debt with respect to leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year; and (iii) Debt with respect to installment purchase contracts having an original term in excess of one year.

"Management Company" means an independent professional firm or corporation hired by the School to manage the charter school in the future.

"Management Company Fees" means the management fees paid to the Management Company as set forth in the management company contract between the School and the Management Company.

"Management Consultant" means an independent professional firm, corporation or Person engaged by the Borrower (with notice of the engagement to the Trustee) as may be required by the provisions of the Agreement.

"Maximum Annual Debt Service" means as of any date of calculation, the highest principal and interest payment requirements with respect to all Long-Term Debt of the Borrower Outstanding for any succeeding Fiscal Year, exclusive of the principal and interest payments due on __________________.

"Monthly Disbursing Date" means a date not later than one Business Day after receipt by the Trustee of School District Payments (but in no event later than the 25th day of each month).

"Moody’s" means Moody’s Investors Service, Inc.
"Mortgaged Property" means the real and personal property as defined in the Mortgage.

"Non-Recourse Debt" means any Debt the holder of which has no claim for any payments in respect thereof against the general credit of the School or against all or any portion of the Premises or the Collateral.

"Obligations" means all Parity Bonds and Parity Debt issued under and/or authorized by the Agreement.

"Officer’s Certificate" means a certificate signed by an Authorized Officer of the Borrower or the School, as applicable, unless specific reference is made to an Officer’s Certificate of the School. Any Officer’s Certificate which (i) relates to any financial test or ratio shall set forth the computations involved in showing compliance with such test or ratio and the assumptions or evidence used as a basis for the figures used in making such computation and shall be approved by a third party certified public accountant or firm of certified public accountants selected by Borrower or the School, as applicable; (ii) relates to repairs, replacements, construction, reconstruction or restoration of the Project or any Capital Addition shall be approved by a certified engineer or other firm or Person selected by the Borrower with recognized expertise in construction and shall set forth the basis for the findings set forth therein; or (iii) which relates to the operations of the Borrower or the School shall be approved by a Management Consultant selected by the Borrower or the School, as applicable, and shall set forth the basis for the findings set forth therein.

"Operating Expenses" means fees and expenses of the Borrower or the School, as applicable, including maintenance, repair expenses, utility expenses, real estate taxes, insurance premiums, administrative and legal expenses, miscellaneous operating expenses including fees actually paid to the Management Company, advertising and promotion costs, payroll expenses (including taxes), the cost of material and supplies used for current operations of the Borrower or the School, as applicable, the cost of vehicles, equipment leases and service contracts, taxes upon the operations of the Borrower or the School, as applicable, not otherwise mentioned in this paragraph, charges for the accumulation of appropriate reserves for current expenses not annually recurrent, but which are such as may reasonably be expected to be incurred in accordance with Generally Accepted Accounting Principles, all in such amounts as reasonably determined by the Borrower or the School, as applicable; provided, however, "Operating Expenses" shall not include (i) those expenses which are actually paid from any revenues of the Borrower or the School, as applicable, which are not Pledged Revenues, (ii) amounts paid from moneys in the Repair and Replacement Fund, (iii) charges for the accumulation of appropriate reserves, (iv) any Operating Expenses of the School which are paid as Additional Rentals, separate from the inclusion of such Additional Rentals or (v) any amounts paid from moneys excluded from the definition of Revenues.

"Operating Lease Obligations" means the Base Rentals and the Additional Rentals described under paragraph (2) under "The Lease – Rent – Additional Rentals" below, and any other obligations incurred by the School in connection with a lease which is not required to be capitalized under generally accepted accounting principles.

"Opinion of Bond Counsel" means an opinion of Bond Counsel who is satisfactory to the Authority and not unsatisfactory to the Trustee.

"Opinion of Counsel" means a written opinion of Counsel.

"Outstanding" when used to modify Obligations, refers to the 2007 Bonds and all other Parity Bonds, Parity Debt and Subordinate Obligations issued under or secured by the Agreement, excluding: (i) Obligations which have been exchanged or replaced, or delivered to the Trustee for credit against a sinking fund installment; (ii) Obligations which have been paid; (iii) Obligations which have become due and for the payment of which moneys have been duly provided to the Trustee; and (iv) Obligations for
which there have been irrevocably set aside with the Trustee sufficient funds, or obligations described under "The Loan and Trust Agreement- Deposit of Funds For Payment of Obligations; Defeasance" bearing interest at such rates and with such maturities as will provide, sufficient funds to pay the principal or redemption price of and interest on such Obligations; provided, however, that if any such Obligations are to be redeemed prior to maturity, the Authority or the Borrower, as the case may be, shall have taken all action necessary to redeem such Obligations and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee. When used to modify other Debt, Outstanding refers to Debt which as of such date remains unpaid except Debt for the payment or redemption of which sufficient moneys have been deposited prior to such date in trust for the holders of such Debt (whether upon or prior to the maturity or redemption date of any such Debt), or which is certified by an Accountant to have been paid pursuant to the provisions of the documents securing such Debt; provided that if such Debt is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or irrevocable arrangements shall have been made therefor.

"Parity Bonds" means any Bonds issued by the Authority pursuant to the Agreement, on a parity basis with the Obligations, and secured by, among other things, the Mortgage and a pledge of Pledged Revenues and one or more of the funds established under the Agreement (excluding the Rebate Fund and any Debt Service Reserve Fund).

"Parity Debt" means any Debt of the Borrower which is issued or incurred pursuant to the Agreement and is secured by the Mortgage and a pledge of Pledged Revenues on a parity basis with the Obligations and any issue of Parity Bonds; and which Debt may also be secured by one or more of the funds established under the Agreement (excluding the Rebate Fund and any Debt Service Reserve Fund) on a parity basis with any Obligations, and included any Interest Rate Hedges as permitted by the Agreement.

"Permitted Encumbrance" means (1) with respect to the Borrower, the existing encumbrances described on an exhibit attached to the Agreement and (2) with respect to the School, as described below.

"Permitted Investments" means any of the following that at the time are lawful investments under the laws of the Commonwealth and applicable banking regulations for the money held under the Agreement:

(a) Obligations of the following federal agencies so long as such obligations are backed by the full faith and credit of the United States of America: (i) U.S. Export-Import Bank; (ii) Rural Economic Community Development Administration (iii) Federal Financing Bank; (iv) General Services Administration; (v) U.S. Maritime Administration; (vi) U.S. Department of Housing and Urban Development (PHAs); (vii) Small Business Administration; (viii) Government National Mortgage Associate (GNMA); (ix) Federal Housing Administration; and (x) Farm Credit System Financial Assistance Corporation

(b) Direct Obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (i) senior debt obligations rated on the date of purchase in the highest long-term rating category by at least two Rating Agencies (one of which must be S&P) issued by Fannie Mae or the Federal Home Loan Mortgage Corporation (FHLMC); (ii) senior debt obligations of the Federal Home Loan Bank System; and (iii) senior debt obligations of other Government Sponsored Agencies.

(c) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks which either (i) have a rating on their short-term certificates of deposit on the date of purchase in the highest short-term rating category of at least two Rating Agencies (one of which must be S&P), (ii) are insured at all times by the Federal Deposit Insurance Corporation, or (iii) are collateralized with direct obligations of the United States of America at 102% valued daily. All such
certificates must mature no more than 360 days after the date of purchase. (Ratings on holding companies
are not considered as the rating of the bank.)

(d) Commercial paper which is rated at the time of purchase in the highest short-term rating
category of at least two Rating Agencies (one of which must be S&P) and which matures not more than
270 days after the date of purchase.

(e) Investments in money market funds subject to SEC Rule 2a-7 and rated on the date of
purchase in the highest short-term rating category of at least two Rating Agencies (one of which must be
S&P).

(f) Pre-refunded municipal obligations defined as follows: any 2007 Bonds, certificates or
other obligations of any state of the United States of America or of any agency, instrumentality or local
governmental unit of any such state which are not callable at the option of the obligor prior to maturity or
as to which irrevocable instructions have been given by the obligor to call on the date specified in the
notice; and (i) which are rated on the date of purchase, based on an irrevocable escrow account or fund
(the "escrow"), in the highest long-term rating category of at least two Rating Agencies (one of which
must be S&P); or (ii) (A) which are fully secured as to principal and interest and redemption premium, if
any, by an escrow consisting only of cash or direct obligations of the United States of America, which
escrow may be applied only to the payment of such principal of and interest and redemption premium, if
any, on such 2007 Bonds, certificates or other obligations on the maturity date or dates thereof or the
specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B)
which escrow is sufficient, as verified by a nationally recognized independent certified public accountant,
to pay principal of and interest and redemption premium, if any, on the 2007 Bonds, certificates or other
obligations described in this paragraph on the maturity date or dates specified in the irrevocable
instructions referred to above, as appropriate.

(g) General obligations of states with a short-term rating on the date of purchase in one of the
two highest rating categories and a long-term rating on the date of purchase in one of the two highest
rating categories of at least two Rating Agencies (one of which must be S&P). In the event such
obligations are variable rate obligations, the interest rate on such obligations must be reset not less
frequently than annually.

(h) Investment agreements secured by other Permitted Investments.

(i) Other forms of investments (including Repurchase Agreements) secured by other
Permitted Investments.

The value of the above investments, other than cash, when required to be calculated under the
Agreement, shall be calculated as follows: (a) as to investments the bid and asked prices of which are
published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the
average of the bid and asked prices for such investments so published on or most recently prior to such
time of determination; (b) as to investment the bid and asked prices of which are not published on a
regular basis in The Wall Street Journal or The New York Times: the average bid price at such price at
such time of determination for such investments by any two nationally recognized government securities
dealers (selected by the Trustee it is absolute discretion) at the time making a market in such investments
or the bid price published by a nationally recognized pricing service; (c) as to certificates of deposit and
bankers acceptances: the face amount thereof, plus accrued interest; and (d) as to any investment not
specified above: the value thereof established by prior agreement between the Borrower and the Trustee.

"Person" or words importing persons means firms, associations, partnerships (including without
limitation general and limited partnerships), joint ventures, societies, estates, trusts, corporations, public
or governmental bodies, other legal entities and natural persons.
"Pledged Revenues" means, regardless of the source, all revenues, rentals, fees, third-party payments, receipts, unrestricted donations, unrestricted contributions or other income of the Borrower, to the extent permitted by the terms thereof and by law, including all the rights to receive such revenues (each subject to Permitted Encumbrances), all as calculated in accordance with sound accounting practices, including, without limitation, School District Payments (whether paid to the Borrower or to the Trustee on behalf of the Borrower upon an Event of Default under the Agreement), federal grants and aid, extended daycare, food services sales proceeds derived from insurance, condemnation proceeds, accounts, contract rights and other rights and assets, whether now or hereafter owned, held or possessed by the Borrower, and all gifts, grants, bequests and contributions (including income and profits therefrom) to the extent permitted by the terms thereof and by law.

"Premises" means the land and improvements leased by the School under the Lease, as more particularly described in the forepart of this Official Statement.

"Property" means any and all land, leasehold interests, buildings, machinery, equipment, hardware, and inventory of the Borrower, or the School, as applicable, wherever located and whether now or hereafter acquired, any and all rights, titles and interest in and to any and all tangible property of the Borrower, or the School, as applicable, whether real or personal, and wherever situated and whether now or hereafter acquired.

"Rating Agency" means Moody’s, S&P or Fitch, and, if any such Rating Agency shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, it may be deemed to refer to any other nationally recognized rating agency designated by the Borrower, by written notice to the Trustee.

"Repair and Replacement Fund Requirement" shall be $25,000 per year, payable in 12 monthly installments of $2,084.

"Revenues" means all receipts, revenues (including, but not limited to School District Payments), payments, income and other moneys received by or on behalf of the School from any source, in connection with the ownership or the operation of all or any part of the Premises, and all non-operating revenues, and all rights to receive the same whether in the form of accounts, contract rights, chattel paper, instruments, general intangibles of the School and the proceeds thereof, the proceeds of any insurance coverages on and condemnation awards in respect of the Premises or any gain on the sale or other disposition of property; all of the foregoing, whether now existing or hereafter coming into existence and whether now owned or held or hereafter acquired by the School; and including all gifts, grants, bequests, donations and contributions, except those heretofore or hereafter made, designated at the time of making by the donor or maker as being for certain specified purposes inconsistent with the application thereof to the payments due from the School under the Lease and except any income derived therefrom to the extent required by such designation or restriction.


"School Debt Service Coverage Ratio" means, for any period of time, the ratio of the aggregate School Income Available for Debt Service to Debt Service Requirements, other than Excluded Debt.

"School District Payments" means any and all payments made by the Bensalem School District to the School which are permitted to be used as Pledged Revenues, as the same may be amended, modified or replaced.

"School Historical Debt Service Coverage Ratio" means, for any Fiscal Year, the ratio obtained by dividing School Income Available for Debt Service for such Fiscal Year by the Base Rent payable by
"School Income Available for Debt Service" means in any period gross operating and non-operating revenues of the School (other than any gifts, grants, bequests or contributions, or the income therefrom to the extent that the same may not be pledged or applied to the payment of amounts due under the Lease or any operating expenses of the School as a result of restrictions or designations imposed by the donor or maker of the gift, grant, bequest or contribution in question at the time of the making thereof), less all operating and non-operating expenses except: (i) Operating Lease Obligations and all principal and interest expense of the School for such period with respect to Long-Term Debt of the School, except interest on Non-Recourse Debt; and (ii) all depreciation expense, amortization of financing charges and other non-cash expenses and unrealized losses of the School, all as determined in accordance with generally accepted accounting principles in determining the earnings for such entity for such period; provided that no determination of Income Available for Debt Service shall include (x) any extraordinary gain or loss resulting from the extinguishment of Debt or the sale, exchange or other disposition of capital assets not in the ordinary course of business to the extent otherwise included in the foregoing calculations of revenues and expenses, (y) any other gains or losses resulting from changes in accounting principles not involving the receipt or the expenditure of cash, or (z) the proceeds of insurance (other than business interruption insurance) or condemnation awards.

"School Revenues" means the School District Payments and all other receipts representing any of the Collateral.

"Short-Term Debt" means all Debt, other than Long-Term Debt, included in the following: (i) Debt with respect to money borrowed payable on demand or for an original term, or renewable at the option of the debtor for a period from the date originally incurred, of one year or less, and (ii) Debt with respect to installment purchase contracts having an original term of one year or less (other than contracts entered into in the ordinary course of business).

"Subordinated Debt" means any Debt incurred or assumed by the School, the payment of which is by its terms specifically subordinated to the payment of Base Rentals.

"Subordinated Obligations" means any means any Debt of the Borrower which is issued or incurred pursuant to the Agreement and is secured by the Mortgage and a pledge of Pledged Revenues on a subordinate basis to the Obligations.

"Supplemental Agreement" means any Indenture, loan agreement, financing document or other loan and trust agreement amending or supplementing the terms of the Agreement or providing for the issuance or securing of Obligations.

"Tax Certificate" means the Tax Certificate as to Arbitrage and the provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986, dated the Closing Date.

"Total Operating Revenues" means the aggregate of all operating revenues and non-operating revenues of the School less applicable deductions from operating revenues (but before deduction of operating expenses) as determined in accordance with generally accepted accounting principles consistently applied.

"Trust Estate" means the property, rights, money, securities and other amounts pledged and assigned pursuant to the Agreement.

"Uniform Commercial Code" means the Uniform Commercial Code, as amended, as in effect in the Commonwealth.
The Loan and Trust Agreement

Assignment and Pledge of the Authority

The Authority assigns and pledges to the Trustee, without recourse, in trust upon the terms of the Agreement and grants to the Trustee a continuing security interest in (a) the rights, title and interest of the Authority under the Agreement, (b) all of the Authority’s rights, whether currently existing or hereafter acquired, to enforce any loan or loans of proceeds of 2007 Bonds made by the Authority to the Borrower pursuant to the terms of the Agreement and (c) all revenues to be received from the Borrower and all funds and investments held from time to time in the Funds established under the Agreement; but not including funds received by the Authority for its own use, whether as administrative fees, reimbursement or indemnification, and the rights thereto. The Borrower joins in the pledge of, and grants of a security interest in, such funds and investments to the extent of its interest therein. The assignment, pledge and security interest described in this paragraph is for the benefit, security and protection of the Holders of the Obligations and the Trustee without privilege, priority or distinction as to the lien or otherwise of any Obligation over any other Obligation of the same series; provided, however, that funds and investments held (i) in the Rebate Fund shall not be pledged to the Obligations and shall be applied solely as provided in the Agreement, and (ii) in the Debt Service Reserve Fund shall be held and applied as provided in the Agreement solely for the security and benefit of the Holders of the Obligations secured by such Debt Service Reserve Fund.

Security Interest in Pledged Revenues

As additional security for the obligation of the Borrower to make all payments due, and to perform all obligations, under the Agreement, and for the benefit and security of all Obligations issued, the Borrower grants to the Trustee a security interest in its Pledged Revenues and any rights to receive such Pledged Revenues. Such security interest shall not restrict the right of the Borrower to apply its Pledged Revenues in such manner and for such purposes as it deems appropriate so long as no Event of Default has occurred and is continuing. The Borrower covenants that whenever any Event of Default resulting from a nonpayment of debt service on the 2007 Bonds shall have occurred and be continuing, the Borrower shall deliver daily to the Trustee, or permit the Trustee to collect directly, so far as practicable, all of the Pledged Revenues for deposit in the Revenue Fund until the total amount of the Pledged Revenues so delivered shall equal the amount then due and payable, at which time, provided no Event of Default shall be continuing, the Borrower may suspend the delivery of the Pledged Revenues.

Deposit of Funds For Payment of Obligations; Defeasance

Except as otherwise provided below, when the Obligations have been paid or redeemed in full as provided in the Agreement, or after there have been deposited with the Trustee sufficient cash, or cash invested in Defeasance Obligations in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay the principal or redemption price of and interest on the Obligations as the same shall become due and payable, and when all the rights of the Authority, the Holders of the Obligations and the Trustee have been provided for, and all other Obligations have been paid in full, the Holders of the Obligations shall cease to be entitled to any benefit or security under the Agreement except the right to receive payment of the cash deposited and held for payment and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Agreement, the security interests created by the Agreement (except in such funds and investments) shall terminate, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the lien and security interests created by the Agreement; provided, however, that if any such Obligations are to be redeemed prior to the maturity thereof, the Borrower shall have taken all action necessary to redeem such obligations and notice of such redemption shall have been duly given in
In connection with the defeasance of the 2007 Bonds, the Borrower shall deliver the following: (a) an opinion of Bond Counsel that refunding and defeasance of the 2007 Bonds will not adversely impact the exclusion from gross income for federal income tax purposes; and (b) the escrow agreement providing that: (i) any substitution of securities shall require a verification of an independent public accountant; (ii) the Authority, the School and the Borrower will not exercise any optional redemption of the 2007 Bonds secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless (1) the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding 2007 Bonds, and (2) as a condition of any such redemption there shall be provided to the Authority and the Trustee a verification of an independent public accountant as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following such redemption; and (c) in the case of 2007 Bonds the interest on which is excluded from income for federal income tax purposes, an Opinion of Bond Counsel to the effect that such transaction is in compliance with applicable law and will not adversely affect the exclusion from gross income under Section 103 of the Code of interest paid on such 2007 Bonds.

Issuance of Obligations.

One or more series of Parity Bonds subject to the Agreement may be issued by the Authority and one or more series of Parity Debt subject to the Agreement may be issued by the Borrower for the purpose of completing payment of the costs of the Project or any Capital Addition, financing or refinancing any Capital Addition, or refunding any such Obligations previously issued, whether by the Authority or another entity, or for any lawful corporate purpose of the Borrower insofar as permitted by applicable law. Obligations shall bear such date or dates, interest rate or rates, maturities, redemption dates, redemption prices and other terms as shall be specified in or determined in accordance with the resolution authorizing the issuance thereof adopted by the Authority or the Borrower, or as provided in a Supplemental Agreement. Such Obligations shall be authenticated and delivered upon the condition set
forth in said resolution or Supplemental Agreement. Obligations may be issued only if the Trustee (with a copy to the Authority) receives the following:

(i) any certificates or other items required in connection with the incurrence of Additional Debt under the Agreement;

(ii) executed counterparts of a Supplemental Agreement identifying the Obligations as Parity Bonds or Parity Debt and providing for the payment of and terms of the Obligations;

(iii) an Opinion of Counsel to the Borrower to the effect (A) that the Supplemental Agreement has been validly authorized and executed by or on behalf of the Borrower and constitutes a valid, legally binding, obligation of the Borrower, enforceable against it in accordance with its terms (except to the extent that the rights and remedies created thereby is subject to bankruptcy, insolvency, reorganization, moratorium and similar laws, or equitable principles affecting the rights and remedies of creditors), and (B) if the purpose of such issue includes the acquisition of any real property or interest therein or the construction of a Capital Addition on real property not previously subject to the Mortgage, as applicable, (1) that the Borrower has good and marketable title thereto free of all liens and encumbrances except Permitted Encumbrances (provided that in lieu of such opinion, the Borrower may provide a policy of title insurance insuring the Borrower’s interest is subject only to Permitted Encumbrances), and (2) the Mortgage, as supplemented, constitutes a valid lien on such additional real property, subject only to Permitted Encumbrances (which opinion may be stated in reliance on the opinion of other counsel satisfactory to the signer or on a certificate of title or a title insurance policy issued by a reputable title company);

(iv) for any Parity Bonds, an opinion or opinions of Bond Counsel to the effect that (A) the purpose of the Parity Bonds is one for which Parity Bonds may be issued, (B) all conditions prescribed as precedent to the issuance of the Parity Bonds have been fulfilled, (C) the Parity Bonds have been validly authorized and executed and when authenticated and delivered pursuant to the request of the Authority will be valid, legally binding, limited obligations of the Authority, enforceable against the Authority in accordance with their terms (except to the extent that the rights and remedies created thereby are subject to bankruptcy, insolvency, reorganization, moratorium and similar laws, or equitable principles affecting the rights and remedies of creditors) and are entitled to the benefit and security of the Agreement, (D) all consents of any regulatory bodies required as a condition to the valid issuance of the Parity Bonds have been obtained and (E) issuance of such Parity Bonds will not adversely affect the tax status of Outstanding Bonds;

(v) in the case of any Parity Debt, an Opinion of Counsel to the Borrower to the effect that such Obligations have been validly authorized and executed and when authenticated and delivered pursuant to the request of the Borrower will be valid, legally binding obligations of the Borrower, enforceable in accordance with their terms (except to the extent that the rights and remedies created thereby are subject to bankruptcy, insolvency, reorganization, moratorium and similar laws, or equitable principles affecting the rights and remedies of creditors) and are entitled to the benefit and security of the Agreement;

(vi) a certified resolution of the Borrower (A) approving the issuance of the Obligations and the terms thereof, (B) authorizing the execution of a Supplemental Agreement and any supplement to the Mortgage, (C) approving plans and specifications for any Capital Addition to be financed by such Obligations, and (D) authorizing redemption of any outstanding obligations to be refunded by the proposed Obligations;

(vii) in the case of Obligations to finance the costs of Capital Additions, a certificate of the Architect stating (i) the estimated cost of completion of the Capital Addition and (ii) that all approvals required for completion of the Capital Addition have been obtained, other than permits which, based on
consultations with the Borrower and construction contractor, will be obtained in due course so as not to interrupt or delay construction of such Capital Addition and other than licenses or permits required for occupancy or operation of such Capital Addition upon its completion;

(viii) for any Obligations incurred to refinance outstanding Obligations, (A) a certificate of the Borrower that notice of redemption of the Obligations to be refunded has been given or that provisions have been made therefor, and (B) a certificate of an Accountant or Management Consultant stating that the proceeds of the Obligations plus the other amounts, if any, stated to be available for the purpose, will be sufficient to accomplish the purpose of the refunding and to pay the cost of refunding, which shall be itemized in reasonable detail;

(ix) a certificate of the Borrower stating (A) that it has no knowledge that an Event of Default has occurred and is continuing (unless such Event of Default will be cured as a result of such Obligations) and (B) that the proceeds of the Obligations plus other amounts, if any, stated to be available for that purpose will be sufficient to pay the costs for which the Obligations are being issued, which shall be itemized in reasonable detail;

(x) in the case of any Parity Bonds to be secured by a Debt Service Reserve Fund, an amount sufficient to make the amount on deposit in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement, as calculated after giving effect to the issuance of such Parity Bonds;

(xi) such other certificates, documents, opinions relating to the issuance of the Obligations or the security therefor as the Authority or the Trustee may reasonably request.

Except as otherwise provided in any Supplemental Agreement relating to any series of Obligations, each series of Parity Bonds or Parity Debt shall be equally and ratably secured with the 2007 Bonds (excluding the Debt Service Reserve Fund and the Rebate Fund), all other series of Parity Bonds and all Parity Debt if any, theretofore issued or incurred in compliance with the Agreement, without preference, priority or distinction of any Parity Bonds or Parity Debt over any other thereof.

An Interest Rate Hedge may be authenticated by the Borrower as an Obligation. Regularly scheduled payments (other than termination payments) to be made by such the Borrower pursuant to such Interest Rate Hedge (an "Authenticated Hedge") shall be equally and ratably secured by the lien created hereunder with all other Obligations, except as otherwise expressly provided in the Agreement. Any such Authenticated Hedge shall be deemed to be Outstanding solely for the purpose of receiving regularly scheduled payments (other than termination payments) from the Borrower under the Agreement, and shall not be entitled to exercise any rights under the Agreement. Termination payments under an Interest Rate Hedge may be secured as Subordinate Obligations, as set forth in the Supplemental Agreement authorizing the authentication thereof.

The terms of and provisions for the subordination of Subordinate Obligations to the Parity Indebtedness shall be satisfactory to the Authority.

Project Fund.

A Project Fund is established with the Trustee. The Project Fund shall be held for the security of all Obligations until applied as provided below, and the Borrower agrees that it has no interest in or rights to the Project Fund, except to receive payment from the Project Fund upon compliance with the requisition procedure described below.

Disbursements from the Project Fund of the proceeds of the 2007 Bonds or the proceeds of Obligations issued to finance a Capital Addition shall be applied for the payment or reimbursement of the following costs: (i) costs incurred directly or indirectly for or in connection with the acquisition, construction, or
improvement of the Project or any such Capital Addition; (ii) fees and expenses of the Trustee; (iii) any other incidental and necessary costs and expenses relating to the Project or any such Capital Addition; and (iv) Costs of Issuance, but only to the extent permitted by the Code.

Disbursements shall be made from the Project Fund only upon receipt by the Trustee of a written requisition, signed by an Authorized Officer of the Borrower; provided, however, that moneys may be transferred from the Project Fund to the Rebate Fund without requisition; and further provided that disbursements may be made from the Project Fund without requisition on account of Costs of Issuance pursuant to a closing statement.

If the moneys in the Project Fund are not sufficient to pay in full the costs to be paid therefrom, the Borrower agrees, in order to fulfill the purposes of the Act, to complete, or cause to be completed, the acquisition, construction, improvement and equipping of the Project and any Capital Addition financed with the proceeds of Obligations and to pay all costs therefor in excess of the moneys available in the Project Fund. The Authority makes no warranty, express or implied, that moneys paid into the Project Fund or otherwise available to complete the Project or any Capital Addition will be sufficient to pay all costs therefor.

Upon the completion of the Project or a Capital Addition financed with the proceeds of Obligations, the Trustee and the Authority shall be furnished with a certificate, signed by an Authorized Officer of the Borrower, and, with respect to the work under Construction Contracts, an Architect’s Certificate stating (i) the completion date of the Project or such Capital Addition, (ii) that all required insurance has been obtained, (iii) that all construction has been completed in accordance with the approved plans and specifications and approved changes, if any, and (iv) the amounts, if any, to be reserved for the payment of any unpaid costs. The Trustee shall thereupon transfer the balance in the Project Fund not reserved for the payment of unpaid costs thereof: first, to the Debt Service Reserve Fund if funding thereof is required pursuant to the Agreement or in connection with such Capital Addition and a deficiency exists in the amount required to be deposited therein; and second, to the Bond Funds as a credit against future deposits, such credit to be applied monthly in equal amounts against the amounts required to be paid pursuant to the Agreement.

Debt Service Reserve Fund.

A Debt Service Reserve Fund is established with the Trustee for the sole benefit and security of the Holders of the 2007 Bonds and moneys or Permitted Investments shall be deposited therein as provided in the Agreement. The Debt Service Reserve Fund shall initially be funded at the Debt Service Reserve Fund Requirement. The moneys in the Debt Service Reserve Fund and any investments (or other security) held as a part of such Fund shall be held in trust and, except as otherwise provided, shall be applied by the Trustee solely to the payment of the principal (including sinking fund installments) of and interest on the 2007 Bonds. Interest and other income received on investments of Debt Service Reserve Fund moneys shall be transferred to the Bond Interest Fund so long as the Debt Service Reserve Fund is funded to an amount equal to the Debt Service Reserve Fund Requirement, and shall be credited each month against interest owed by the Borrower.

Except as provided below with respect to the Rebate Fund, moneys in the Debt Service Reserve Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the 2007 Bonds in the event moneys in the Bond Principal Fund, Bond Interest Fund, and Working Capital Fund are insufficient to make such payments when due, whether on an Interest Payment Date, sinking fund redemption date, maturity date or otherwise. Upon the occurrence of an Event of Default and the exercise by the Trustee of the remedies specified in the Agreement, any moneys in the Debt Service Reserve Fund shall be transferred by the Trustee to the Bond Interest Fund, and with respect to any moneys in excess of the amount required to be transferred to the Bond Interest Fund, to the Bond Principal Fund and applied in accordance with the Agreement. On the final maturity date of the 2007 Bonds any moneys in the Debt
Service Reserve Fund may be used to pay the principal of and interest on the 2007 Bonds on such final maturity date. In the event of the redemption of the 2007 Bonds in whole, any moneys in the Debt Service Reserve Fund shall be transferred to the Bond Principal Fund and applied to the payment of the principal of and premium, if any, on the 2007 Bonds.

The weighted average maturity of the Permitted Investments in the Debt Service Reserve Fund shall not exceed ten years. If on any valuation date (as described below under "Investments") the amount in the Debt Service Reserve Fund is greater than the Debt Service Reserve Fund Requirement, such excess shall be transferred by the Trustee to the Bond Interest Fund. If on any valuation date the amount in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the Trustee shall immediately notify the Borrower in writing of the amount of such deficit and request that the Borrower deposit with the Trustee such amount within five Business Days of its receipt of such notice.

Within five Business Days of any transfer of funds from the Debt Service Reserve Fund to the Bond Principal Fund or the Bond Interest Fund because of a deficiency therein, the Trustee shall give written notice to the Borrower of such transfer and of the amount of the deficiency, if any, of amounts then on deposit in the Debt Service Reserve Fund as of such date and request that the Borrower deposit with the Trustee an amount equal to such deficiency no later than six months from the date its receipt of such notice in six equal monthly installments.

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

In determining the value of the assets of the Debt Service Reserve Fund, there shall be credited to the Debt Service Reserve Fund the amount that can be realized by the Trustee under any Debt Service Reserve Fund Credit Facility if each of the following conditions is met to the reasonable satisfaction of the Trustee: (i) on the date of delivery of such Debt Service Reserve Fund Credit Facility to the Trustee and throughout the period during which it is credited to the Debt Service Reserve Fund, the unsecured long-term indebtedness or the claims-paying ability of the issuer of such Debt Service Reserve Fund Credit Facility or its parent holding company or other controlling entity is rated in one of its two highest rating categories by S&P; (ii) such Debt Service Reserve Fund Credit Facility is free and clear of all liens and encumbrances superior to the Agreement; (iii) such Debt Service Reserve Fund Credit Facility permits the Trustee to realize amounts thereunder at such times as the Trustee is required to transfer any amount (other than any surplus) from the Debt Service Reserve Fund in accordance with the Agreement; and (iv) if amounts realized under such Debt Service Reserve Fund Credit Facility are, under any circumstances, payable from the School Revenues or are secured by any property of the School (other than any property donated, granted or bequeathed to the School for such purpose), such amounts shall be payable in no fewer than 12 equal monthly installments; provided, however, that the amount that can be realized by the Trustee under any Debt Service Reserve Fund Credit Facility shall not be credited to the Debt Service Reserve Fund on any date that is within six months of the expiration date of such Debt Service Reserve Fund Credit Facility unless such expiration date occurs after the maturity date of the 2007 Bonds secured thereby.

In connection with the issuance of additional Obligations under the Agreement, the Trustee may establish such debt service reserve funds or other reserve funds as may be provided, and under such conditions as may be set forth in, any Supplemental Agreement relating to such additional Obligations.
Moneys in the Repair and Replacement Fund shall be disbursed by the Trustee (a) to the Borrower or to the Borrower’s order to pay (i) the cost of improvements to the Project, (ii) replacement or repair of equipment or other components of the Project, and (iii) to purchase additional equipment for the Project; and (b) to pay principal and interest on the 2007 Bonds to the extent payments by the Borrower are insufficient therefor. The Repair and Replacement Fund shall initially be funded with One Hundred Thousand dollars ($100,000.00) as provided for in the Closing Statement. Thereafter, commencing in ________________, and on each Monthly Disbursement Date thereafter, the Borrower shall cause to be deposited into the Repair and Replacement Fund an amount equal to the Repair and Replacement Fund Requirement. In the event the Borrower delivers a certificate of an Authorized Officer of the Borrower to the effect that Borrower’s annual budget for any Fiscal Year indicates that the amount then on deposit in the Repair and Replacement Fund plus the amounts to be deposited in the Repair and Replacement Fund during such Fiscal Year are insufficient to pay all amounts required for projected ordinary and extraordinary maintenance and replacement expenses incurred in connection with the Project, the Repair and Replacement Fund Requirement shall be adjusted to an amount equal to the amount of Borrower’s projected ordinary and extraordinary maintenance and replacement expenses as reflected in Borrower’s annual budget for such Fiscal Year but in no event will the balance of the Repair and Replacement Reserve Fund exceed $200,000. Borrower shall replenish any amount disbursed from the Repair and Replacement Fund by including in each monthly payment of debt service, an amount sufficient to replenish the Repair and Replacement Fund of such disbursement within thirty-six (36) months from the date the disbursement was made. Such payments to replenish the Repair and Replacement Fund shall commence on the first month following the distribution.

Rebate Fund.

There shall be deposited into the Rebate Fund as and when received (i) investment income on moneys in the Funds to the extent provided in a direction of the Borrower, (ii) moneys received from the Borrower, (iii) moneys transferred to the Rebate Fund from the Debt Service Reserve Fund (but only to the extent that the amount on deposit therein is in excess of the Debt Service Reserve Fund Requirement), the Project Fund, the Bond Principal Fund or the Bond Interest Fund pursuant to the provisions of this paragraph, and (iv) all other moneys received by the Trustee when accompanied by directions not inconsistent with the Agreement that such moneys are to be paid into the Rebate Fund. The Trustee shall cause amounts on deposit in the Rebate Fund to be forwarded to the United States Treasury at the times and in the amounts directed by the Borrower. These provisions may be amended or deleted to the extent specified in an Opinion of Bond Counsel delivered to the Trustee and the Authority.

Bond Principal Fund and Bond Interest Fund.

Except for transfer into the Rebate Fund and as required following an Event of Default, moneys in the Bond Principal Fund shall be used solely for the payment of the principal of and premium, if any, on the 2007 Bonds as due, and moneys in the Bond Interest Fund shall be used solely for the payment of the interest on the 2007 Bonds as due.

Application of Moneys.

If available moneys in the Bond Funds after any required transfers to the appropriate account in the Bond Funds from the Debt Service Reserve Fund (with respect to Obligations secured by a Debt Service Reserve Fund) are not sufficient on any day to pay principal or redemption price of and interest on the Outstanding Obligations then due or overdue, such moneys (other than any sum irrevocably set aside for the redemption of particular Obligations and amounts required to be paid to the Rebate Fund) shall, after payment of all charges and disbursements of the Authority and the Trustee in accordance with the Agreement, be applied first to the payment of interest, including interest on overdue principal, in the order
in which the same became due (pro rata with respect to interest which became due at the same time) and second to the payment of principal or redemption price in the order in which the same became due (pro rata with respect to principal which became due at the same time) in each case pro rata among, first, the Holders of Obligations, and, second, the Holders of Subordinate Obligations. Whenever moneys are to be applied pursuant to this paragraph, the Trustee shall fix the date (which shall be the first of a month unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal paid on such date shall cease to accrue. The Trustee shall give or cause to be given notice of such date at least ten days before such date. The Trustee shall not be required to make payment to the Holder of any Obligations until such Obligations shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Investments.

Pending their use under the Agreement, moneys in all Funds held by the Trustee may be invested by the Trustee at the direction of the Borrower in Permitted Investments maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested pursuant to an Officer’s Certificate of the Borrower if there is not then an Event of Default known to the Trustee. Moneys in all Funds held by the Trustee shall be held in trust solely for Holders of the Obligations and the Trustee (or the federal government in the case of the Rebate Fund). Moneys in the Debt Service Reserve Fund shall be invested by the Trustee at the direction of the Borrower in Permitted Investments, none of which shall mature or be subject to redemption at the option of the holder more than seven years from the date of purchase; provided, that any Permitted Investment may have a final maturity date later than otherwise permitted to the extent that the obligor under such Permitted Investment is required to make funds available under such Permitted Investment on the date on which funds are required therefrom for the purposes of the Agreement. Any investments pursuant to this paragraph shall be held by the Trustee as a part of the applicable Fund and shall be sold or redeemed to the extent necessary to make payments or transfers or anticipated payments or transfers from such Fund.

Except as set forth below, and subject to the provisions regarding the Rebate Fund, earnings (which for such purposes include net profit and are after deduction of net loss) on moneys deposited in any Fund shall be retained therein. Earnings on moneys deposited in the Debt Service Reserve Fund: (i) so long as no deficiency then exists in the Debt Service Reserve Fund, shall be transferred to the Rebate Fund on any date on which a payment is due to the Rebate Fund, in an amount equal to such payment (to the extent available and net of any transfers made from the Project Fund for such purpose); (ii) if any deficiency then exists in the Debt Service Reserve Fund, shall be retained therein, and (iii) otherwise, shall be transferred to the Bond Funds.

Permitted Investments in the Bond Funds shall be valued by the Trustee on a monthly basis, and in all other Funds on each January 1 and July 1, pursuant to the methodology set forth in the definition of Permitted Investments; provided that Permitted Investments in the Rebate Fund shall be valued at amortized cost or market value, whichever is less.

If at any time the Trustee holds any invested cash (other than de minimis amounts which may be retained uninvested) and the Borrower fails to direct the investment thereof, the Trustee is authorized by the Borrower, without need of any further directions, to invest such cash in investments described in clause (e) of the definition of Permitted Investments.

Loan Payments and Other Amounts Payable.

(a) The Borrower shall pay (or cause to be paid) as repayment of the Loan until the principal of, premium, if any, and interest on the Obligations shall have been paid or provision for the payment thereof shall have been made in accordance with the Agreement, into the Revenue Fund on each Monthly
Disbursement Date during the term of the Agreement, amounts equal to the disbursements from the Revenue Fund to the Bond Interest Fund and the Bond Principal Fund.

(b) On or before the mailing of any notice of redemption (other than a sinking fund redemption date), the Borrower shall pay as repayment of the Loan for deposit into the Bond Principal Fund an amount of money which, together with the payments made by the Borrower then on deposit in the Bond Principal Fund, is sufficient to pay the principal of and premium, if any, on the 2007 Bonds called for redemption and for deposit into the Bond Interest Fund an amount of money which, together with the payments made by the Borrower then on deposit in the Bond Interest Fund, is sufficient to pay the interest accrued to the redemption date of 2007 Bonds called for redemption.

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

(d) The Borrower agrees to pay or cause to be paid to the Trustee the reasonable and necessary fees and expenses of the Trustee, including its attorney fees and expenses, as and when the same become due, upon submission of a statement therefor; provided that the Borrower may, without creating a default, contest in good faith any such fees or expenses.

(e) The Borrower shall pay or cause to be paid to the Trustee for deposit to the Rebate Fund all amounts required to be paid pursuant to the Tax Certificate at the times and in the manner specified therein.

(f) The Borrower agrees to pay or cause to be paid to the Authority any amounts required to reimburse the Authority for any expenses incurred by the Authority, whether out-of-pocket or internal, in connection with the Agreement, the 2007 Bonds, the Tax Certificate, the Bond Purchase Agreement, the Project or any other instrument or action relating to the foregoing, including fees and disbursements of attorneys of the Authority. The Borrower agrees that the payment under the Agreement shall be a net return to the Authority over and above any taxes or charges of any nature whatsoever which may currently or hereafter be imposed on the receipts of the Authority under the Agreement.

(g) The Borrower covenants to maintain the balance on deposit in the Debt Service Reserve Fund at an amount not less than the Debt Service Reserve Fund Requirement.

(h) The Borrower shall also, promptly upon the request of the Trustee, pay to the Trustee an amount necessary to pay the fees and expenses of the Rebate Analyst.

Insurance Required.

From the Closing Date through the expiration of the Agreement, the Borrower shall keep, or cause to be kept, the Mortgaged Property insured against the following risks, paying as the same become due and payable all premiums with respect thereto:

(a) Insurance against loss or damage to the Mortgaged Property and all improvements therein (including, during any period of time when the Borrower is making alterations, repairs or improvements to the Mortgaged Property, improvements and betterments coverage), all subject to standard form exclusions, with uniform standard extended coverage endorsement limited only as may be provided in the standard form of extended coverage endorsement at the time in use in the Commonwealth, in an amount equal to the full replacement value of the Building.
(b) Business interruption insurance in an amount equal to twelve (12) months of budgeted Operating Expenses for any period of improvement or restoration. The period of restoration shall begin with the date of direct physical loss and shall end on one year from such date the period of restoration begins.

(c) Commercial general liability, professional liability and automobile liability insurance against claims arising in, on or about the Mortgaged Property, including in, on or about the sidewalks or premises adjacent to the Mortgaged Property, providing coverage limits not less than the coverage limits customarily carried by owners or operators of Mortgaged Property of similar size and character within the Commonwealth; provided, that the following specific coverage limits shall be deemed to comply with this paragraph: (i) commercial and general liability with an aggregate limit of $2 million ($1 million for personal injury) and a limit of $1 million per claim; (ii) auto insurance with an aggregate limit of $1 million; and (iii) excess or umbrella insurance with a limit of $2 million.

(d) Such other forms of insurance as are customary in the industry or as the Borrower is required by law to provide with respect to the Mortgaged Property, including, without limitation, any legally required worker’s compensation insurance and disability benefits insurance.

All the insurance coverage required above may be subject to deductible clauses in such amounts as are customary for Mortgaged Property of similar size, type and character within the Commonwealth. At least every two years from the date of the Agreement, the Borrower shall employ (or cause to be employed), at the Borrower’s expense, an Insurance Consultant to review the insurance coverage required above and to render to the Authority and the Trustee a report as to the adequacy of such coverage and as to its recommendations, if any, for adjustments thereto. The Borrower shall pay any fees charged by such Insurance Consultant and any expenses incurred by the Authority and the Trustee. The Authority’s decision to permit the Borrower to be self-insured (beyond customary deductibles) shall be in the Authority’s sole and absolute discretion. The Borrower’s self-insurance, if any, existing on the date of delivery of the Agreement may continue without evidence of compliance with the above requirements unless the periodic report of the Insurance Consultant states that such self-insurance is not consistent with sound risk management.

All policies maintained (or caused to be maintained) by the Borrower shall be taken out and maintained with generally recognized, responsible insurance companies rated not less than "A" by A.M. Best, authorized in the Commonwealth, which may include "captive" insurance companies or governmental insurance pools, selected by the Borrower. The insurance policies required by paragraphs (a) and (b) above shall name the Trustee, the Authority and the Borrower as insureds as their respective interests may appear (provided that with respect to insurance maintained pursuant to paragraph (a) above and in connection with the construction of the Project, the Trustee shall also be named as a mortgagee under the terms of a standard Pennsylvania mortgagee loss payable endorsement), and the Trustee shall also be named as an additional insured on the policy required by paragraph (c) above, and, provided further that all insurance proceeds for losses, and except for worker’s compensation, fidelity insurance and liability insurance, shall be paid directly to the Trustee. Such policies or certificates of insurance shall (i) provide that (except as to insurance required pursuant to paragraph (d) above) the insurer will mail 30 days’ written notice to the Authority and the Trustee of any reduction in amount, material change in coverage or cancellation prior to expiration of such policy, and (ii) be satisfactory in all other respects to the Authority.

The Net Proceeds of the insurance carried pursuant to paragraphs (a) and (b) above shall be applied as provided under "Proceeds of Insurance or Condemnation Award" below. The Net Proceeds of insurance carried pursuant to paragraphs (c) and (d) above shall be applied toward extinguishment or satisfaction of the liability with respect to which such insurance proceeds have been paid.
Casualty; Condemnation; Loss of Title.

If the Mortgaged Property shall be wholly or partially destroyed or damaged by fire or other casualty covered by insurance, or if the Mortgaged Property shall be wholly or partially condemned, taken or injured by any person, including any person possessing the right to exercise the power of or a power in the nature of eminent domain or transferred to such a person, by way of a conveyance in lieu of the exercise of such a power by such person, or if any part of the Mortgaged Property shall be lost because of failure of title, the Borrower covenants that it will take all actions and will do all things which may be necessary to enable recovery to be made upon such policies of insurance or on account of such taking, condemnation, conveyance, damage, injury or loss of title in order that moneys due on account of losses suffered may be collected and paid to the Trustee. Any appraisement or adjustment of loss or damage and any settlement or payment therefor, which may be agreed upon by the Borrower and the appropriate insurer or condemnor or person, shall be evidenced to the Trustee and the Authority by an Officer’s Certificate. The Borrower shall notify the Trustee of any casualty in excess of $500,000. The Trustee may rely conclusively upon such Officer’s Certificate.

Proceeds of Insurance or Condemnation Award

In the event of a casualty or condemnation with respect to the Facilities, and so long as no Event of Default exists and is continuing, the proceeds from any insurance policy or the proceeds of any condemnation award resulting from such casualty or condemnation shall be used to repair or replace the portion of the Facilities damaged, destroyed or taken or to prepay the Loan in accordance with the terms of the Agreement in accordance with the following provisions:

(a) In the event of a casualty or condemnation that results in an award less than or equal to $500,000 (which amount shall be increased as of each July 1 by a percentage equal to the past year’s increase in the Consumer Price Index for Philadelphia County (the “CPI Adjustment”) as provided by the Borrower to the Trustee by evidence reasonably acceptable to the Trustee) from any insurance policy or condemnation awards, such proceeds shall be paid directly to the Borrower to provide for the repair, replacement or restoration of the Facilities to substantially the same condition as it was prior to such damage, destruction or condemnation.

(b) Whenever such net proceeds from any insurance policy or condemnation award are greater than $500,000 (plus the applicable CPI Adjustment), such net proceeds shall be paid to the Trustee and held in a special trust account to be applied to repair, replace or restore the Facilities or, if applicable, to the prepayment of the Loan. The proceeds in such special trust account shall be disbursed by the Trustee for the repair, restoration or replacement of the Facilities upon the receipt by the Trustee from the Borrower of (i) an Architect’s Certificate which substantially states that such repairs, replacements or restorations will restore the Facilities to substantially its original condition, will be completed in accordance with plans and specifications previously provided to the Trustee, and that such repairs, replacements or restorations when completed in accordance with the plans and specifications previously furnished to the Trustee will comply with all applicable statutes, codes and regulations; (ii) a certificate of an Authorized Representative of the Borrower stating that sufficient moneys are available in such special trust account to pay for such repair, restoration or replacements to be completed and together with available business interruption insurance and other available Pledged Revenues, to pay debt service on the 2007 Bonds and Operating Expenses of the Facilities during the restoration period; (iii) requisitions and certificates from the Borrower substantially similar to those specified in a disbursing agreement; (iv) applicable Lien waivers; (v) a construction contract; (vi) evidence of the existence of performance and payment bonds therefor; and (vii) evidence that the Borrower has acquired all permits and licenses necessary for such construction; and, if such net proceeds are in excess of $500,000, in addition to those requirements listed in (i) through (vii) above, (viii) an endorsement to the applicable title insurance policy insuring the continued priority of the Lien of the Mortgage; and (ix) an opinion of Bond Counsel to the effect that neither such repairs, replacements nor restorations nor such use of such casualty or
condemnation proceeds adversely affects the exclusion from gross income for federal income tax purposes of interest on the 2007 Bonds. The construction contracts for the restoration of the Facilities shall specify that the Trustee shall retain 10% of the requested disbursements to be disbursed upon final completion of the repairs, replacements, restorations or improvements as certified by the Architect and receipt of certificates of occupancy, waivers of Liens and, if such net proceeds are in excess of $250,000, an endorsement to the title policy for the Facilities insuring the continued priority of the Deed of Trust. If at any time during the restoration, the insurance or casualty proceeds are less than the estimated costs to restore, repair or replace the Facilities, the Borrower shall provide the Trustee with cash or cash equivalents in an amount equal to the shortfall. If after completion of any such repairs, replacements, or improvements any funds remain in said special trust fund, the remaining funds shall be transferred by the Trustee to the Bond Interest Fund and Bond Principal Fund, accordingly, and used to prepay the Loan and to redeem 2007 Bonds. Notwithstanding the above provisions, all proceeds of business interruption insurance shall be paid to the Trustee and deemed to be Pledged Revenues for purposes of the Agreement.

(c) Notwithstanding any of the foregoing, if net proceeds from the casualty or condemnation of all or any portion of the Facilities exceed $200,000, and the Loan is not otherwise to be prepaid, the Borrower shall immediately notify the Trustee regarding such casualty or condemnation and shall, no later than 30 days following the occurrence of the events resulting in the casualty or condemnation, notify the Trustee in writing whether or not the Borrower intends to repair and/or rebuild the Facilities. If the Borrower does not intend to repair and/or rebuild the Facilities, the Trustee shall cause such insurance proceeds to be used to prepay the Loan. If the Borrower intends to repair and/or rebuild the Facilities, said notice from Borrower shall contain the following additional information, together with a statement from the Borrower certifying to the accuracy of such information: (i) a description of the damaged, destroyed or taken portion of the Facilities; (ii) the estimated time to complete repair, replacement or restoration of the damaged, destroyed or taken portion of the Facilities, as determined by a qualified independent contractor retained by the Borrower; (iii) the total estimated cost of such replacement, repair or restoration, as determined by a qualified independent contractor retained by the Borrower; and (iv) the source of funds the Borrower has available (including, but not limited to, insurance proceeds), to complete the repair, replacement or restoration and to make payments due under the Agreement during the period of repair, replacement or restoration.

Tax Covenants.

The Authority covenants that it will not knowingly take any action or fail to take any action it is requested to take, and the Borrower covenants 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 exclusions from gross income of the interest on the 2007 Bonds under Section 103(a) of the Code. Neither the Authority nor the Borrower will directly or indirectly use or permit the use of any proceeds of the 2007 Bonds or any other funds of the Authority or the Borrower, or take or omit to take any action, that would cause the 2007 Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code. To that end, the Authority and the Borrower will comply with all requirements of Section 148 of the Code to the extent applicable to the 2007 Bonds. In the event that at any time the Authority or the Borrower is of the opinion that for purposes of this paragraph it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Agreement or otherwise, the Authority or the Borrower shall so instruct the Trustee in writing, and the Trustee shall take action in accordance with such instructions. The Borrower also covenants that it will not purchase, nor will it permit any person related to it within the meaning of Section 147(a)(2) of the Code to purchase, Bonds of the Authority pursuant to any formal or informal arrangement in an amount related to the total amount payable under and secured by the Agreement.

Notwithstanding any provisions of the Agreement, if the Borrower shall provide to the Authority and the Trustee an opinion of Bond Counsel that any specified action is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the 2007 Bonds, the Authority, the Trustee and the Borrower may conclusively rely on such opinion in complying
with the requirements of the Agreement and be protected in so doing, and the covenants shall be deemed to be modified to that extent.

**Permitted Encumbrances.**

The Borrower will not grant any liens on the Facilities or the Pledged Revenues (other than the lien against the Pledged Revenues effected by the Agreement and Permitted Encumbrances).

**Maintenance of Corporate Existence.**

The Borrower agrees that during the term of the Agreement it will maintain its corporate existence, will continue to be a nonprofit corporation duly qualified to do business in the Commonwealth, will not merge or consolidate with, or sell or convey, all or substantially all of its assets to, any Person unless no Event of Default has occurred and is continuing and it first acquires the consent of the Authority to such transaction, provides to the Trustee notice of its intent at least 90 days in advance of such consolidation, merger, sale or conveyance, and unless the acquirer of such assets or the corporation with which it shall be consolidated or the resulting corporation in the case of a merger:

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

(b) shall provide the Authority and the Trustee with an opinion of Bond Counsel acceptable to the Authority to the effect that such merger, consolidation, sale or conveyance, would not adversely affect the validity of any of the 2007 Bonds or the exclusion from gross income for federal income tax purposes of interest on the 2007 Bonds;

(c) shall provide the Authority and the Trustee with an Opinion of Counsel to the Borrower (which may be rendered in reliance upon the Opinion of Counsel to such other corporation), stating that none of the other corporations which are a party to such consolidation, merger or transfer has any pending litigation other than that arising in the ordinary course of business or, has any pending litigation which might reasonably result in a substantial adverse judgment;

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

(e) in the case of a consolidation, merger, sale or conveyance, shall provide evidence to the Trustee and the Authority that the entity can continue to operate the Project as a charter school in accordance with Act 22 and that the entity is entitled to receive the School District Payments.

**Financial Statements; Reports; Annual Certificate.**

**Financials.** The Borrower shall provide to the Trustee, within 30 days after completion of the Borrower’s annual audit, and in no event later than February 1 after the end of such audit period, a copy of the audited financial statements of the Borrower for such Fiscal Year, together with a copy of any management letter delivered by the auditors in connection with such financial statements. The Trustee shall have no duty regarding such information other than to retain any such information that it receives and to transmit same in accordance herewith.

**Accounting.** Upon any Event of Default or any event which, with the giving of notice or lapse of time or both, would constitute any Event of Default, the Trustee shall have the right to direct an interim audit by a
certified public accountant at the Borrower’s expense and the Borrower’s failure to comply with such direction within thirty (30) days after written notice of the direction from the Trustee shall be deemed a default.

**Authority Report.** The Borrower will deliver to the Trustee and the Authority within six weeks after the end of the Borrower’s Fiscal Year a certificate executed by the Borrower’s president or chief financial officer stating that: (i) a review of the activities of the Borrower during such Fiscal Year and of performance under the Agreement has been made under [his/her] supervision; and (ii) [He/She] is familiar with the provisions of the Agreement and the Tax Certificate and to the best of his/her knowledge, based on such review and familiarity, the Borrower has fulfilled all of its obligations under the Agreement and thereunder throughout the Fiscal Year, and there have been no defaults under the Agreement or the Tax Certificate or, if there has been a default in the fulfillment of any such obligation in such Fiscal Year, specifying each such default known to [him/her] and the nature and status thereof and the actions taken or being taken to correct such default.

**Limitations on Incurrence of Additional Debt; Security.**

Except as provided below, the Borrower will not incur any Additional Debt (including, without limitation, Debt for borrowed money, capital leases and installment sale agreements, but excluding trade payables in the ordinary course of business) other than:

(i) Obligations for which the School has agreed to make payments of rent under the Lease sufficient to pay the debt service thereon which the School would be permitted to incur as Debt or Operating Lease Obligations (as each such term is defined under the Lease) pursuant to the terms of the Lease if incurred directly by the School.

(ii) Debt which meets the following requirements: (1) the stated term of such Debt (taking into account all extension or renewals thereof which may be made at the sole option of the Borrower) does not exceed five years; and (2) the Maximum Annual Debt Service on such Debt (the greatest aggregate amount of principal and interest payable in the then current or any future Fiscal Year), when added to the Maximum Annual Debt Service on any other Debt of the Borrower incurred under this provision and then outstanding, does not exceed an aggregate total of $200,000.

(iii) Any other Debt (including additional parity Debt secured in whole or in part by a deed of trust on the Project and a security interest in the Pledged Revenues on a parity with amounts secured by the Mortgage on the Project and the security interest in the Pledged Revenues granted by the Agreement) only upon providing to the Trustee a certificate of an Authorized Representative of the Borrower, accompanied by a confirming Accountant’s Certificate, to the effect that (i) based on the audited financial statements of the Borrower, the Debt Service Coverage Ratio for the most recent Fiscal Year, including the additional Debt in such calculation, was at least 1.25, and, including existing Debt and existing Subordinated Obligations in such calculation, was at least 1.20 and (ii) the pro forma Debt Service Coverage Ratio for the then-current Fiscal Year, annualized to reflect 12 months of operations and including the additional Debt in such calculation is at least 1.25.

(iv) Debt (including additional parity Debt secured in whole or in part by a mortgage on the Project and a security interest in the Pledged Revenues on a parity with amounts secured by the Mortgage on the Project and the security interest in the Pledged Revenues granted by this Agreement) upon providing to the Trustee:

(A) A certificate of an Authorized Representative of the Borrower, accompanied by a confirming Accountant’s Certificate, to the effect that based on the audited financial statements of the Borrower, the Debt Service Coverage Ratio for the most recent Fiscal Year, including existing Indebtedness in such calculation, was at least 1.25, and, including existing Debt and existing...
Subordinated Obligations in such calculation, was at least 1.20; and

(B) A report, financial forecast or feasibility study prepared, reviewed, examined or reported upon by an Accountant in accordance with applicable standards demonstrating and concluding that the Debt Service Coverage Ratio of the Borrower is not less than 1.25 for each of the first two full Fiscal Years immediately following:

(1) the incurrence of the Indebtedness; or

(2) in the case of Debt incurred to finance the acquisition, construction or renovation of any Capital Addition, either the projected completion date thereof or the projected date of occupancy in each case as specified in such forecast.

(v) Debt or an Operating Lease Obligation for the purpose of refunding any Outstanding Debt or Operating Lease Obligation so as to render it no longer Outstanding if prior to incurrence thereof:

(A) The Borrower shall have adopted a Resolution finding that such refunding is in the best interest of the School and stating the reasons for such finding;

(B) There is delivered to the Trustee an Opinion of Counsel stating that upon the incurrence of such proposed Indebtedness or Operating Lease Obligation and application of the proceeds thereof, the Outstanding Debt or Operating Lease Obligation to be refunded thereby will no longer be Outstanding; and

(C) Such refunding does not result in an increase of more than 10% of the Maximum Annual Debt Service.

(vi) Short-Term Debt so long as the principal amount of the Short-Term Debt to be incurred when added to the outstanding principal amount of other Short-Term Debt does not exceed the greater of 10% of the Revenue or One Million Dollars ($1,000,000.00).

(vii) Subordinate Obligations so long as (i) same are subordinate to the Mortgage, the Lease and obligations under the Agreement, (ii) are permitted by the Agreement and (iii) the Trustee is provided a certificate of an Authorized Representative of the Borrower, accompanied by a confirming Accountant’s Certificate, to the effect that based on the audited financial statements of the Borrower, the Debt Service Coverage Ratio for the most recent Fiscal Year, including the additional Debt and all other Subordinated Obligations in such calculation, was at least 1.20.

(viii) Any Interest Rate Hedge provided that: (i) it is entered into in connection with a permitted Debt; (ii) only periodic payments thereunder are secured on a parity with Parity Indebtedness and all termination payments are subordinate; (iii) the provider of the Interest Rate Hedge (or any guarantor or contingent swap counterparty thereof) has a rating in one of the two highest rating categories of S&P; and (iv) notice to S&P at least 30 days prior thereto of the intent to enter into an Interest Rate Hedge along with all information regarding such Interest Rate Hedge requested by S&P.

The Borrower covenants that it shall not enter into any Guaranty unless such Guaranty could then be incurred by the Borrower as Long-Term Debt.

Lease or Other Disposition of the Mortgaged Property.

The Borrower shall have the right to lease all or any part of the Facilities; provided, however, that the terms and provisions of any future leases will allow the Borrower to comply with the provisions of the Agreement and contain the restrictions upon the use of the Project contained in the Agreement, and, with
respect to any lease the annual rental under which is equal to or greater than 5% of the unrestricted revenues of the Borrower for the most recent Fiscal Year or, when added to the annual rental payable under all other leases of the Facilities then in force is equal to or greater than 10% of the unrestricted revenues of the Borrower for the most recent Fiscal Year, the written consent of the Insurer shall have been obtained; and provided further that any future leases will provide for rental payments to be made directly to the Trustee to the extent of then current payments required under the Agreement. Other than leases permitted by this paragraph or Permitted Encumbrances, the Borrower agrees that it will not sell or otherwise dispose of the Facilities.

Construction of Capital Additions and Project.

The Borrower agrees as follows with respect to the Project and each Capital Addition financed with the proceeds of Obligations, the cost of which exceeds $750,000: (i) the Borrower shall file with the Trustee copies of (A) all Construction Contracts relating to the Project and each such Capital Addition, (B) an estimate of the costs thereof and the estimated schedule for payment of such costs, which estimates and schedules shall be approved by an Architect, to the extent that they relate to work done under Construction Contracts and (C) the plans and specifications (if any) therefor prepared by an Architect and approved by the Borrower; and (ii) amendments, modifications, changes and deletions relating to the Project and each such Capital Addition, to any Construction Contract relating thereto or any estimate, schedule or plans and specifications therefor may be made at the discretion of the Borrower, provided that such changes are filed with the Trustee and are in compliance with all applicable laws, acts, rules, regulations, orders and requirements.

Surety Bonds.

In connection with the construction component of the Project and any Capital Addition financed with the proceeds of Obligations, the cost of which exceeds $750,000 (or such lower amount as required by law), the Borrower agrees to obtain or cause to be obtained by each general contractor for the Project and each such Capital Addition performance and payment bonds covering performance of their respective contracts, including coverage for correction of defects developing within one year after completion and acceptance, and payment for labor and materials relating thereto. The performance and payment bonds shall be executed by a responsible surety company or companies qualified to do business in Pennsylvania, rated at the time of purchase at least "A" by S&P or A.M. Best Company, Inc. and reasonably satisfactory to the Insurance Consultant, shall name the Trustee as a dual obligee and shall be in amounts, in the aggregate, equal to not less than 100% of the guaranteed maximum price under the Construction Contract relating to such Capital Addition, including increases caused by change orders, provided that such performance and payment bonds (or portions of bonds) covering defects may be limited to 10% of such contract prices. The net amounts recovered by the Borrower on such bonds shall be deposited in the Project Fund.

Continuing Disclosure by the Borrower.

The Borrower has agreed to comply with the Rule as set forth under "CONTINUING DISCLOSURE" in the forepart of this Official Statement.

Maintenance and Modifications of Mortgaged Property by Borrower.

The Borrower agrees that during the term of the Agreement the Facilities shall be operated and maintained, in compliance with all governmental laws, building codes, ordinances, and regulations and zoning laws as shall be applicable to the Facilities, unless the same are being contested in good faith by appropriate proceedings which operate to stay any action to foreclose or otherwise realize on any property of the Borrower. The Borrower agrees that during the term of the Agreement it will at its own expense (a) keep the Facilities in as safe condition required by law and (b) except to the extent the Borrower has
determined that any portion of the Facilities is obsolete or not useful in its operations, keep the Facilities in good repair and in good operating condition, making from time to time all necessary repairs thereto (including external and structural repairs) and renewals and replacements thereof all of which shall be accomplished in a workmanlike manner in accordance with all applicable laws. The Borrower may dispose of portions of the Facilities that the Borrower determines to be obsolete or not useful to operations of the Facilities. The Borrower may also, at its own expense, make from time to time any additions, modifications or improvements to the Facilities (including modifications to the Facilities, if any) it may deem desirable for its purposes that do not substantially reduce its value; provided that all such additions, modifications and improvements made by the Borrower which are affixed to the Facilities shall become a part of the Facilities. The Borrower will not permit the removal of any personal property from the Facilities unless such personal property is obsolete, sold for fair market value or will be replaced with personal property of an equal or greater value. The Borrower will not permit any Liens, security interests or other encumbrances other than Permitted Encumbrances to be established or to remain against the Facilities for labor or materials furnished in connection with the Facilities or any additions, modifications, improvements, repairs, renewals or replacements made by it to the Facilities; provided that if the Borrower first notifies the Trustee of its intention to do so, the Borrower may, so long as no Event of Default has occurred and is continuing, diligently prosecute, in good faith, at its own expense, a contest of any mechanics’ or other Liens filed or established against the Facilities and in such event may permit the items contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom unless the Facilities or any part thereof will be subject to loss or forfeiture, in which event the Borrower shall promptly pay and cause to be satisfied and discharged all such unpaid items. The Authority will, at the expense of the Borrower, cooperate fully with the Borrower in any such contest. In the event that the Borrower shall fail to pay any of the foregoing items required by this paragraph to be paid by the Borrower, the Authority or the Trustee may (but shall be under no obligation to) pay the same, and any amounts so advanced therefor by the Authority or the Trustee shall become an additional obligation of the Borrower under the Agreement to the one making the advance, which amount the Borrower agrees to pay on demand together with interest thereon at a rate which shall be 3% per annum above the highest rate of interest borne by any of the 2007 Bonds or the maximum rate permitted by law if less than such rate.

Events of Default Defined.

The following shall be "Events of Default" under the Agreement:

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

(b) Failure shall be made in the observance or performance of any covenant, agreement, contract or other provision in the Bonds or the Agreement (other than as referred to in (a) above) and such default shall continue for a period of 30 days after written notice to the Issuer, the Borrower and the Trustee from the Registered Owners of at least 25% in aggregate principal amount of the Bonds then Outstanding or to the Issuer and the Borrower from the Trustee specifying such default and requiring the same to be remedied, provided, no Event of Default shall be deemed to have occurred so long as a course of action adequate to remedy such failure shall have been commenced within such 30-day period and shall thereafter be diligently prosecuted to completion.

(c) Failure by the Borrower to make any payments required under the Agreement as and when due.

(d) Failure by the Borrower to observe and perform any covenant, condition or agreement on its part to be observed or performed other than as referred to in paragraph (c) above, for a period of 30
days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Borrower by the Authority, the Trustee; provided, no Event of Default shall be deemed to have occurred so long as a course of action adequate in the judgment of the Trustee to remedy such failure shall have been commenced within such 30-day period and shall thereafter be diligently prosecuted to completion.

(e) The dissolution or liquidation of the Borrower, or failure by the Borrower promptly to contest and have lifted any execution, garnishment, or attachment of such consequence as will impair its ability to meet its obligations with respect to the Facilities or to make any payments under the Agreement. The phrase "dissolution or liquidation of the Borrower," shall not be construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another domestic corporation or a dissolution or liquidation of the Borrower following a transfer of all or substantially all of its assets under the conditions permitting such actions described under "Maintenance of Corporate Existence" above.

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

(g) The commencement by the Borrower of a voluntary case under the federal bankruptcy laws, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law, or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Borrower or for any substantial part of its property, or the making by it of any assignment for the benefit of creditors, or the failure of the Borrower generally to pay its debts as such debts become due, or the taking of corporate action by the Borrower in furtherance of any of the foregoing.

(h) Failure of the Borrower to comply with any covenants contained in the Tax Certificate.

(i) The occurrence of an Event of Default (after any applicable grace periods) under the Lease, the Mortgage or any of the Bond Documents.

(j) Any representation or warranty made by the Borrower in the Agreement or made by the Borrower in any statement or certificate furnished by the Borrower either required by the Agreement or in connection with the execution and delivery of the Agreement and the sale and the issuance of the 2007 Bonds, shall prove to have been untrue in any material respect as of the date of the issuance or making thereof.

(k) Judgment for the payment of money in excess of $100,000 (which is not covered by insurance) is rendered by any court or other governmental body against the Borrower, and the Borrower does not discharge same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof within 60 days from the date of entry thereof, and within said 60-day period or such longer period during which execution of such judgment shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal while providing such reserves therefor as may be required under Generally Accepted Accounting Principles.

(l) A writ or warrant of attachment or any similar process shall be issued by any court against the Facilities of the Borrower, and such writ or warrant of attachment or any similar process is not released or bonded within 60 days after its entry.
(m) Any of Borrower’s representations and warranties in the Agreement or in any of the other Bond Documents with respect to environmental matters are false in any material respect.

(n) The occurrence and continuation of any event of default under any other Debt of the Borrower or any agreement in connection with or securing such Debt if as a result of such event of default the holder of such Debt would have the right to declare the principal thereof to be immediately due and payable.

Remedies on Default.

If an Event of Default occurs, then the majority of Holders of Bonds must direct the Trustee to pursue a remedy unless such Event of Default is waived. Whenever an Event of Default shall have occurred and is continuing, the Authority, or the Trustee where so provided, at the direction of the Owners of majority of all Bonds Outstanding shall, take any one or more of the following remedial steps:

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

(b) The Trustee (acting as assignee of the Authority) or the Authority (in the event of a failure of the Trustee to act), as and to the extent provided in the Agreement, may exercise the power of sale or foreclose under the Mortgage on the property subject thereto and may exercise all the rights and remedies of a secured party under the Pennsylvania Uniform Commercial Code with respect thereto and with respect to the Pledged Revenues.

(c) The Trustee (acting as assignee of the Authority) or the Authority (in the event of a failure of the Trustee to act), as and to the extent provided in the Agreement, may take whatever action at law or in equity as may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance or observance of any obligations, agreements, or covenants of the Borrower under the Agreement.

The Trustee shall not be required to take any action to enforce any rights or remedies at the discretion of the owners of a majority of all Bonds outstanding unless prior thereto the Trustee is furnished with indemnity reasonably satisfactory to it, including indemnity for environmental damages.

Notwithstanding the foregoing, prior to the exercise by the Authority or the Trustee of any remedy that would prevent the application of this paragraph, the Borrower may, at any time, pay all accrued payments (exclusive of any such payments accrued solely by virtue of declaration) and fully cure all defaults, and in such event, the Borrower shall be fully reinstated to its position as if such Event of Default had never occurred.

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

Whenever any Event of Default has occurred and is continuing under the Agreement, the Trustee may, but except as otherwise provided shall not be obligated to, exercise any or all of the rights of the Authority under this Article, upon notice as required to the Authority. If the Trustee is not enforcing the Authority’s rights in a manner to protect the Authority or is otherwise taking action that brings adverse consequences to the Authority, then the Authority may, without the consent of the Trustee, take whatever action at law or in equity may appear necessary or appropriate to enforce the Authority’s Unassigned
Rights and to collect all sums then due and thereafter to become due to the Authority under the Agreement.

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

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

**No Remedy Exclusive.**

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

**Waiver.**

In the event any agreement contained in the Agreement should be breached by any party and thereafter waived by any other party, such waiver shall be limited to the particular breach waived and shall not be deemed to waive any other breach. In view of the assignment of the Authority’s rights in and under the Agreement to the Trustee, the Authority shall have no power to waive any Event of Default without the consent of the Trustee and the Owners of two-thirds (2/3) of the Bonds Outstanding. Notwithstanding the foregoing, unless otherwise required by the Owners of two-thirds (2/3) of all Bonds Outstanding, a waiver of an Event of Default under the Agreement or a rescission of a declaration of acceleration of the Bonds and a rescission and annulment of its consequences shall constitute a waiver of the corresponding Event of Default under the Agreement and a rescission and annulment of its consequences; provided, that no such waiver or rescission shall extend to or affect any subsequent or other default or impair any right consequent thereon.

**Proofs of Claim.**

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Authority or the Borrower or any other obligor upon the Bonds or the property of the Authority, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Authority and/or the Borrower for the payment of overdue principal or interest) shall be entitled and empowered, by intervention of such proceeding or otherwise: (i) to file and prove a claim for the whole amount of principal, premium, if any, and interest owing and unpaid in respect of the Bonds then Outstanding and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Owners allowed in such judicial proceeding; and to collect
and receive any moneys or other property payable or deliverable on any such claims and to distribute the
same; (ii) and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such
judicial proceeding is authorized by each Owner to make such payments to the Trustee, and, in the event
that the Trustee shall consent to the making of such payments directly to the Owners, to pay to the Trustee
any amount due to it for the reasonable compensation, expenses, disbursements and advances of the
Trustee, its agent and counsel.

So long as Bonds are outstanding the Trustee is appointed under the terms of the Agreement, and the
successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed
to have so appointed the Trustee, the true and lawful attorney in fact of the respective Owners of the
Bonds, with authority to make or file, in the respective names of the Owners of the Bonds or on behalf of
all Owners of the Bonds, as a class, any proof of debt, amendment to proof of debt, petition or other
documents and to execute any other papers and documents and to do and perform any and all acts and
things for and on behalf of all Owners of the Bonds as a class, as may be necessary or advisable in the
opinion of the Trustee, in order to have the respective claim of the Owners of the Bonds against the
Authority, the Borrower or any other obligor allowed in receivership, insolvency, liquidation, bankruptcy
or other proceeding, to which the Authority, the Borrower or any other obligor, as the case may be, shall
be a party. The Trustee shall have full power of substitution and delegation in respect of any such powers.

Treatment of Funds in Bankruptcy.

The Borrower acknowledges and agrees that in the event Borrower commences a case under the United
States Bankruptcy Code located at 11 U.S.C. §§ 101 et. seq. (the "Bankruptcy Code") or is the subject of
an involuntary case that results in an order for relief under the Bankruptcy Code: (i) amounts on deposit in
any of the Funds are not, nor shall they be deemed to be, property of Borrower’s bankruptcy estate as
defined by § 541 of the Bankruptcy Code; (ii) that in no event shall Borrower assert, claim or contend that
amounts on deposit in any of the Funds are property of Borrower’s bankruptcy estate; and (iii) that
amounts on deposit in any of the Funds are held in trust solely for the benefit of the Registered Owners
and the Beneficial Owners, shall be applied only in accordance with the provisions of the Agreement and
the Borrower has no legal, equitable nor reversionary interest in, or right to, such amounts.

Resignation, Removal and Succession of Trustee.

The Trustee may resign at any time without cause by giving at least 30 days’ prior written notice by mail
to each Holder of an Obligation then Outstanding, as the names and addresses of such Holders appear on
the registration books maintained by the Trustee, such resignation to be effective upon the acceptance of
such Trusteeship by a successor. In addition, the Trustee may be removed (a) at the direction of the
holders of not less than 50% in aggregate principal amount of Obligations then Outstanding, delivered to
the members of the Borrower and the Trustee, or (b) by the Authority at the direction of the Borrower if
no Event of Default then exists, such direction to be evidenced by an Officer’s Certificate specifying the
cause for such removal and delivered to the Trustee 90 days prior to any such removal date, any such
removal to be effective upon the acceptance of the Trusteeship by a successor. The Trustee shall promptly
give notice of any removal pursuant to the previous sentence in writing to each Holder of an Obligation
then Outstanding as provided above. In the case of the resignation or removal of the Trustee, a successor
Trustee acceptable may be appointed by the Borrower, as evidenced by an Officer’s Certificate
designating the successor. If a successor Trustee shall not have been appointed within 30 days after such
notice of resignation or removal, the Trustee, the Borrower or any Holder of an Obligation then
Outstanding may apply to any court of competent jurisdiction to appoint a successor to act until such
time, if any, as a successor shall have been appointed as above provided. The successor so appointed by
such court shall immediately and without further act be superseded by any successor appointed as above
provided.
Any successor Trustee, however appointed, shall be a bank or trust company having a combined capital and surplus of at least $50,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Trustee upon reasonable or customary terms.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation to which substantially all the business of the Trustee may be transferred, shall, subject to the terms of the preceding paragraph, be the Trustee under the Agreement without further act.

Proceedings by Holders of Obligations.

No Holder of Obligations shall have any right to institute any legal proceedings for the enforcement of the obligations of the Borrower under the Agreement or any applicable remedy, unless the Holders of Obligations have directed the Authority and the Trustee to act and furnished the Authority and the Trustee indemnity and have afforded the Authority and the Trustee reasonable opportunity to proceed, and the Authority and the Trustee shall thereafter fail or refuse to take such action. Subject to the foregoing, any Holder of Obligations may by any available legal proceedings enforce and protect its rights under the Agreement and under the laws of the Commonwealth of Pennsylvania.

Amendments.

The Agreement may be amended by the parties without the consent of the Holders for any of the following purposes: (i) to add to the covenants and agreements of the Borrower or to surrender or limit any right or power of the Borrower; (ii) to cure any ambiguity or defect, or to add provisions which are not inconsistent therewith and which do not impair the security for the Obligations; (iii) to provide for the issuance and establish the terms and provisions of Obligations (provided that the Authority shall not be required to be a party to any Supplemental Agreement providing for the issuance of Parity Debt), and provide for all other matters in connection with the issuance of Obligations, including, without limitation, provisions relating to, or required by the Authority of, any Credit Facility applicable to Obligations, provided that no such amendment shall have a material adverse effect upon the security for the Obligations; (iv) to provide for the sharing of control of, or notices with respect to, the exercise of remedies with the Holders of Obligations and other provisions incident to the securing of Obligations; or (v) to amend the provisions regarding the Rebate Fund, tax covenants or covenants regarding the construction of the Project as permitted in the Agreement.

Except as provided in the preceding paragraph, the Agreement may be amended only with the written consent of the majority in principal amount of the Outstanding Obligations; provided, however, that no amendment of the Agreement may be made without the unanimous written consent of the affected Holders of Obligations for any of the following purposes: (1) to extend the maturity of any Obligation; (2) to reduce the principal amount or interest rate of any Obligation; (3) to make any Obligation redeemable other than in accordance with its terms; (4) to create a preference or priority of any Obligation or Obligations over any other Obligation or Obligations; or (5) to reduce the percentage of the Obligations required to be represented by the Holders of Obligations giving their consent to any amendment.

When the Trustee determines that the requisite number of consents has been obtained for an amendment which requires Holder consent, it shall, within 90 days, file a certificate to that effect in its records and mail or cause to be mailed notice to the Holders of Obligations. No action or proceeding to invalidate the amendment shall be instituted or maintained unless it is commenced within 60 days after such mailing. The Trustee will promptly certify to the Authority that it has mailed or caused to be mailed evidence that such notice was given in the manner required by the Agreement. A consent to an amendment may be revoked by a notice given by the Holder and received by the Trustee prior to the Trustee’s certification that the requisite consents have been obtained.
The Lease

Rent.

Base Rentals. The School shall pay to the Borrower during the term of the Lease, on or before each Monthly Disbursing Date, Base Rentals equal to the amounts due from the Borrower as described in paragraph (a) under "The Loan and Trust Agreement -- Loan Payments and Other Amounts Payable" above. The amount of Base Rentals shall be recalculated by the Borrower in the event of the issuance of any Parity Bonds or any partial redemption of any Parity Bonds prior to maturity.

Additional Rentals. In addition to the Base Rentals, the School shall pay to the Borrower the following additional rentals (the "Additional Rentals"):  

(1) An amount sufficient to pay the following costs, as estimated by the Borrower, during the next ensuing Fiscal Year (a) the reasonable fees and expenses of the Trustee and the Borrower under the Agreement; (b) the cost of insurance premiums for the Premises; (c) the cost of taxes, utility charges, maintenance, upkeep and repair costs for the Premises; (d) payments into the Debt Service Reserve Fund required by the Agreement; (e) payments into the Rebate Fund required by the Agreement; (f) payments into the Repair and Replacement Fund required by the Agreement; (g) all other costs included in the definition of, or expressly required to be paid by the School as, Additional Rentals.

(2) The School and the Borrower may agree on the payments of other Additional Rentals if the School and the Borrower deliver to the Trustee an Officer’s Certificate certifying that, for the applicable Fiscal Year, after taking into account such proposed Additional Rentals, the School shall be in compliance with all financial and other covenants contained in the Lease and that no Event of Default exists under the Lease. Payment of Additional Rentals pursuant to this paragraph shall be subordinate to the payment of Base Rentals.

(3) The School expressly agrees to pay to the Borrower and its directors and officers, as appropriate as Additional Rentals, (i) all costs and expenses incurred by the Borrower or by its directors or officers in connection with any investigation, claim, demand, suit, action or proceeding relating to the activities of the Borrower, or such directors or officers in their capacity as such, in respect of the Premises, the Agreement, the Lease, the Mortgage or any matter related thereto, and (ii) all other amounts payable by the Borrower under the Lease and the Agreement not already included in Base Rentals or Additional Rentals.

Security.

As security for its performance and payment of the School's obligations under the Lease, the School pledges to the Borrower, and grants to the Borrower a security interest in, the Collateral.

Insurance to be Maintained.

The School shall maintain the following policies of insurance, to the extent the risks covered by such policies are not covered by the policies of insurance required by the Agreement:

(1) Insurance against loss or damage to the Premises and all improvements therein (including, during any period of time when the School is making alterations, repairs or improvements to the Premises, improvements and betterments coverage), all subject to standard form exclusions, with uniform standard extended coverage endorsement limited only as may be provided in the standard form of extended coverage endorsement at the time in use in the Commonwealth, in an amount equal to the full replacement value of the Building.
(2) Business interruption insurance in an amount equal to twelve (12) months of budgeted Operating Expenses for any period of improvement or restoration. The period of restoration shall begin with the date of direct physical loss and shall end on one year from such date the period of restoration begins.

(3) Commercial general liability, professional liability and automobile liability insurance against claims arising in, on or about the Premises, including in, on or about the sidewalks or premises adjacent to the Premises, providing coverage limits not less than the coverage limits customarily carried by owners or operators of Premises of similar size and character within the Commonwealth; provided, that the following specific coverage limits shall be deemed to comply with this paragraph: (i) commercial and general liability with an aggregate limit of $2 million ($1 million for personal injury) and a limit of $1 million per claim; (ii) auto insurance with an aggregate limit of $1 million; and (iii) excess or umbrella insurance with a limit of $2 million.

(4) Such other forms of insurance as are customary in the industry or as the School is required by law to provide with respect to the School, including, without limitation, any legally required worker’s compensation insurance and disability benefits insurance.

All the insurance coverage may be subject to deductible clauses in such amounts as are customary for Premises of similar size, type and character within the Commonwealth. At least every two years from the date of the Lease, the School shall employ (or cause to be employed), at its expense, an Insurance Consultant to review the required insurance coverage and to render to the Authority and the Trustee a report as to the adequacy of such coverage and as to its recommendations, if any, for adjustments thereto. The School shall pay any fees charged by such Insurance Consultant and any expenses incurred by the Borrower and the Trustee. The School may self-insure (beyond customary deductibles) upon delivery to the Trustee of a report of an Insurance Consultant that such self-insurance complies with the terms of the Lease.

All policies maintained (or caused to be maintained) by the School shall be taken out and maintained with generally recognized, responsible insurance companies rated not less than "A" by A.M. Best, authorized in the Commonwealth, which may include "captive" insurance companies or governmental insurance pools, selected by the School. The insurance policies required by paragraphs (1) and (2) above shall name the Trustee, the Borrower and the School as insureds as their respective interests may appear (provided that with respect to insurance maintained pursuant to paragraph (1) above, the Trustee shall also be named as a mortgagee under the terms of a standard Pennsylvania mortgagee loss payable endorsement), and the Trustee shall also be named as an additional insured on the policy required by paragraph (3) above, and, provided further that all insurance proceeds for losses, and except for worker’s compensation, fidelity insurance and liability insurance, shall be paid directly to the Trustee. Such policies or certificates of insurance shall (i) provide that (except as to insurance required pursuant to paragraph (4) above) the insurer will mail 30 days’ written notice to the Borrower and the Trustee of any reduction in amount, material change in coverage or cancellation prior to expiration of such policy, and (ii) be satisfactory in all other respects to the Borrower and the Trustee.

The net proceeds of the insurance carried pursuant to paragraphs (1) and (2) above shall be applied as provided in the Agreement. The net proceeds of insurance carried pursuant to paragraphs (3) and (4) above shall be applied toward extinguishment or satisfaction of the liability with respect to which such insurance proceeds have been paid.

**Audits; Reports.**

The School will provide to the Trustee:
(a) a copy of a preliminary annual operating budget for the School for each Fiscal Year, prepared and delivered at least thirty (30) days prior to the start of each such Fiscal Year, and a copy of the final budget when approved;

(b) together with its annual audited financial statements, a statement of the Accountant auditing such financial statements that in the course of its audit of the School nothing has come to such Accountant's attention to lead it to believe that any Event of Default or any event which with the giving of notice or the passage of time, or both, would constitute an Event of Default exists or, if that is not the case, specifying such Event of Default or possible Event of Default.

(c) within six weeks after the end of the School’s Fiscal Year a certificate executed by its Chief Executive Officer stating that: (i) a review of the activities of the School during such Fiscal Year and of performance under the Lease has been made under [his/her] supervision; and (ii) [He/She] is familiar with the provisions of the Lease and to the best of his/her knowledge, based on such review and familiarity, the School has fulfilled all of its obligations under the Lease throughout the Fiscal Year, and there have been no defaults under the Lease or, if there has been a default in the fulfillment of any such obligation in such Fiscal Year, specifying each such default known to [him/her] and the nature and status thereof and the actions taken or being taken to correct such default; and

(d) immediately following receipt thereof, copies of any notices, reports or determinations from the Commonwealth or the School District of Philadelphia which reflect any potential materially adverse impact on the School’s status as a qualified charter school under Pennsylvania law.

Maintenance of Existence.

The School shall maintain its existence as a charter school in good standing under the laws of the Commonwealth, provided that the School may merge or consolidate with any other corporation, or may transfer, sell or convey all or substantially all of its assets to any Person if:

(a) The School is the surviving or resulting corporation, as the case may be (the "Survivor"), or in the event the School is not the Survivor, the Survivor (A) is a solvent corporation either organized under the laws of, or duly qualified to do business and subject to service of process in, the Commonwealth, and is a 501(c)(3) Organization, and (B) assumes in writing the due and punctual payment of all obligations under the Lease, and the due and punctual performance and observance of all of the covenants and conditions of the Lease.

(b) The Trustee and the Borrower receive an Opinion of Bond Counsel (as defined in the Agreement) to the effect that such merger, consolidation or transfer does not adversely affect the exclusion from gross income of the interest paid on the 2007 Bonds for federal income tax purposes.

(c) The School or the Survivor shall have obtained and delivered to the Trustee any consent or approval required by the Commonwealth approving the change in ownership resulting from such merger, consolidation or transfer of assets, together with an Opinion of Counsel that all such consents or approvals that are required have been obtained.

(d) No Event of Default will have occurred by reason of such merger, consolidation or transfer, and no event will have occurred by reason of such merger, consolidation or transfer which with the passage of time or giving of notice, would constitute an Event of Default.

Prior to any merger, consolidation or transfer, the School shall deliver to the Trustee, the Borrower and the Underwriter an Officer's Certificate demonstrating that all of the foregoing conditions have been satisfied, which certificate shall be supported by such reports or opinions as the Trustee or the Underwriter may reasonably require.
Financial Covenants.

(a) The School covenants and agrees to achieve a School Historical Debt Service Coverage Ratio of at least 1.10 for each Fiscal Year, beginning with the Fiscal Year ending June 30, 2007.

(b) The School covenants and agrees to maintain an unrestricted cash balance as of the end of each Fiscal Year, as shown on its annual audited financial statements, of at least 5% of its Operating Expenses for the Prior Fiscal Year (not including debt service).

(c) If for any Fiscal Year, the School fails to meet the financial covenants set forth in (a) and (b) above, the School (at the School’s sole expense) shall engage a Management Consultant (with notice of the engagement to the Trustee), which shall deliver a written report to the School and the Trustee containing recommendations concerning the School’s: (i) operations; (ii) investment management practices; (iii) fundraising activities; and (iv) other factors relevant to meeting such financial covenants for the Fiscal Year ending on the next succeeding annual evaluation date. In such instance, the following provisions shall apply: (1) within 45 days after its engagement, the Management Consultant will submit its consultant report, together with a certificate of the School indicating the School’s substantial acceptance or rejection of all or any material portion of the recommendations of the Management Consultant, to the Trustee; (2) so long as the School engages a Management Consultant as required above and accepts and continuously and substantially complies with the recommendations of the Management Consultant, failure to meet the above financial covenants for such Fiscal Year will not in and of itself constitute an Event of Default so long as the School Historical Debt Service Coverage Ratio for such Fiscal Year was not less than 1.00.

Management Company Fees.

Payment of any and all Management Company Fees by the School will be subordinate to the payment of Base Rent sufficient to pay debt service on the 2007 Bonds until such time that, based upon the School’s audited financial statements, the School Historical Debt Service Coverage Ratio (after payment of the Management Company Fees) is 1.25 for three (3) consecutive Fiscal Years. If at any time the School Debt Service Coverage Ratio drops below 1.10, the Management Company Fees shall once again be subordinated.

Restrictions on Debt and Operating Lease Obligations.

The School will not incur or assume (the terms "incur" and "assume," mean and include the guaranteeing of, or the direct or indirect assumption of liability for, the debts of others) any Debt or Operating Lease Obligations other than as permitted by the Lease. Any Obligations issued under the Agreement shall be included in any of the limitations set forth below.

(a) The School may incur or assume Debt or Operating Lease Obligations (taking into account all extension or renewals thereof which may be made at the sole option of the School): (i) with a term which does not exceed five years; and (ii) the Maximum Annual Debt Service on which, when added to the Maximum Annual Debt Service on any other Debt of the School incurred under this provision and then outstanding, does not exceed an aggregate total of $200,000.

(b) The School may incur any other Debt or Operating Lease Obligations (including additional parity Debt or Operating Lease Obligations secured in whole or in part by the Collateral on a parity with its obligations under the Lease) only upon providing to the Trustee a certificate of an Authorized Officer of the School, accompanied by a confirming certificate of an Accountant, to the effect that: (i) based on the audited financial statements of the School for the most recent year, the Debt Service Coverage Ratio, including the additional Debt in such calculation, was at least 1.25 and, including the
additional Debt and all Subordinated Debt in such calculation, was at least 1.20; and (ii) the pro forma Debt Service Coverage Ratio for the current Fiscal Year, annualized to reflect 12 months of operations and including the additional Debt in such calculation, is at least 1.25.

(c) The School may incur any other Debt or Operating Lease Obligations subordinate to the obligations of the School under the Lease and liens on the Collateral or other assets of the School securing such subordinate Debt, so long as (i) the same are subordinate to the School’s obligations under the Agreement and (ii) the Trustee is provided a certificate of an Authorized Officer of the School, accompanied by a confirming Certificate of an Accountant, to the effect that based on the audited financial statements of the School, the Debt Service Coverage Ratio for the most recent Fiscal Year, including the additional Debt and all other Subordinated Debt in such calculation, was at least 1.20.

(d) The School may incur Debt or Operating Lease Obligations (including additional parity Debt or Operating Lease Obligations secured in whole or in part by the Collateral on a parity with its obligations hereunder) upon providing to the Trustee:

(A) a certificate of an Authorized Officer of the School, accompanied by a confirming Accountant’s Certificate, to the effect that, based on the audited financial statements of the School, the Debt Service Coverage Ratio for the most recent Fiscal Year, including the Additional Debt in such calculation, was at least 1.25, and, including existing Debt and existing Subordinated Debt in such calculation, was at least 1.20; and

(B) a report, financial forecast or feasibility study prepared, reviewed, examined or reported upon by an Accountant in accordance with applicable standards demonstrating and concluding that the Debt Service Coverage Ratio of the School is not less than 1.25 for each of the first two full Fiscal Years immediately following:

(1) the incurrence of the Debt; or
(2) in the case of Debt incurred to finance the acquisition, construction or renovation of any Capital Addition, either the projected completion date thereof or the projected date of occupancy, in each case as specified in such forecast.

(e) The School may incur Debt or Operating Lease Obligation for the purposed of refunding any Outstanding Debt or Operating Lease Obligation so as to render it no longer Outstanding if prior to incurrence thereof:

(i) the School shall have adopted a resolution finding that such refunding is in the best interests of the School and stating the reasons for such finding;
(ii) there is delivered to the Trustee an Opinion of Counsel stating that upon the incurrence of such proposed Debt or Operating Lease Obligation and application of the proceeds thereof, the Outstanding Debt or Operating Lease Obligation to be refunded thereby will no longer be Outstanding; and
(iii) such refunding does not result in an increase of more than 10% of the Maximum Annual Debt Service.

(f) The School may incur Short-Term Debt from time to time, provided that the principal amount of the Short Term Debt to be incurred, when added to the outstanding principal amount of all other Short-Term Debt does not exceed the greater of 10% of the Revenue or One Million Dollars ($1,000,000).

(g) The School may enter into any Interest Rate Hedge provided that: (i) it is entered into in connection with permitted Debt; (ii) only periodic payments thereunder are secured on a parity with the
Lease and all termination payments are subordinate to the Lease; (iii) the provider of the Interest Rate Hedge (or any guarantor or contingent swap counterparty thereof) has a rating in one of the two highest rating categories of S&P; and (iv) notice to S&P at least 30 days prior thereto of the intent to enter into an Interest Rate Hedge along with all information regarding such Interest Rate Hedge requested by S&P.

Security for Permitted Debt and Operating Lease Obligations.

Any Debt or Operating Lease Obligations incurred as provided in the Lease may be secured only: (a) by a lien on and security interest in any property or interest in property, real, personal or mixed, of the School other than the Premises or the Collateral; (b) by a purchase money security interest in fixtures, equipment or school materials or by a security interest given to refinance a purchase money security interest; (c) by a lien on and security interest in the Collateral, subordinate to the lien and security interest created by the Lease; or (d) any Debt which is incurred for the purpose of providing working capital, including a line of credit, may be secured by a security interest in Revenue and Accounts on a parity with the security interest created therein by the Lease. Any agreement for the repayment of such Debt and instruments evidencing or securing the same shall provide all notices to be given to the Trustee and the Borrower regarding defaults by the School, and shall specify the rights of the Trustee to pursue remedies upon the receipt of such notice, and the sharing of the rights of the Holders of the Obligations to control the exercise of remedies with the holders of such Debt.

Sale, Lease or Other Disposition of Property.

The School covenants that it shall not transfer, sell, Lease or dispose of Property or the Collateral to any other Person, unless permitted in the Lease.

The School may, from time to time, remove, sell or otherwise dispose of Property or the Collateral in the ordinary course of its business including, without limitation, equipment, furniture and fixtures which have become obsolete or for which the School has received fair market value.

The School may, from time to time, remove, sell or otherwise dispose of any Property of the Collateral, for fair market value, provided that the market value of the Property and the Collateral subject to such transfers shall not exceed five percent (5%) of the total market value of the Property and Collateral.

The School may sell, remove or otherwise dispose of tangible personal property, fixtures or equipment at any time having book value in excess of the limit described in paragraph (b) above if the School delivers to the Trustee: (1) a certified copy of a resolution adopted by the governing body of the School authorizing such transfer; and (2) an Officer's Certificate (A) to the effect that such removal, sale or other disposition shall not impair the use and operation of the Premises, (B) stating the estimated fair value, if any, of such property or interest in property, and (C) stating that such arrangements have been made or can be made for sale or other disposition thereof for consideration not less than such estimated fair value.

The School covenants that the net proceeds of any sale or other disposition made pursuant to the paragraphs above, if any, shall be applied to the replacement of the Property or the Collateral sold or disposed of, or shall otherwise be reinvested in the Premises or shall be used to redeem the 2007 Bonds.

The School may, from time to time, remove, sell or otherwise transfer any Property or the Collateral, if such Property or Collateral consist solely of assets which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for payment on the 2007 Bonds.

Limitations on Creation of Liens.

The School agrees that it will neither create nor suffer to be created or exist any Lien upon any Property or the Collateral now owned or hereafter acquired by the School other than Permitted Encumbrances. If
any mechanic's, laborer's or materialman's lien shall at any time be filed against the Premises or any part thereof, the School, within fifteen (15) days after notice of the filing thereof, will cause such lien to be discharged of record by payment, deposit, 2007 Bond, order of the court of competent jurisdiction or otherwise. If the School shall fail to cause such lien to be discharged within the period aforesaid, then in addition to any other right or remedy, the Borrower may, but shall not be obligated to, discharge it either by paying the amount claimed to be due or by procuring the discharge of such lien by deposit or by 2007 Bonding proceedings, and in any such event, the Borrower shall be entitled, if the Borrower so elects, to compel the prosecution of any action for the foreclosure of such lien by the lienor and to pay the amount of the judgment in favor of the lienor with interest, costs and allowances. Any amount so paid by the Borrower and all costs and expenses incurred by the Borrower in connection therewith, together with interest thereon at the Default Rate from the respective dates of the Borrower's making of the payments and incurring of the costs and expenses, shall constitute Additional Rental payable by the School under the Lease and shall be paid by the School to the Borrower on demand.

Permitted Encumbrances shall consist of the following:

1. the Liens created by the Lease;
2. Liens granted to secure Debt as permitted by the Lease;
3. any Lien described in an exhibit to the Lease which is existing on the effective date thereof, including renewals thereof, provided that no such Lien may be extended or modified to apply to any Property of the School not subject to such Lien on such date, unless such Lien as so extended or modified otherwise qualifies as a Permitted Encumbrance;
4. any Lien on Property acquired by the School pursuant to a consolidation, merger, sale or conveyance in accordance with the Lease and that is not incurred in contemplation of such consolidation, merger, sale or conveyance; provided that no such Lien may be extended or modified to apply to any Property of the School not subject to such Lien on such date, unless such Lien if so extended or modified otherwise qualifies as a Permitted Encumbrance;
5. any Liens for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished which are not due and payable or which are not delinquent or the amount or validity of which are being contested and execution thereon is stayed or the existence of which will not subject the Premises or the Collateral to material loss or forfeiture;
6. any judgment lien in an amount not in excess of $100,000 against the School so long as such judgment is being contested and execution thereon is stayed or, in the absence of such contest and stay, such judgment lien will not materially impair the Premises or the Collateral or subject the Premises or the Collateral to material loss or forfeiture;
7. rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, (A) to control or regulate any Property, or to use such Property, in any manner, which rights do not materially impair the use of such Property, or materially and adversely affect the value thereof, (B) to terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially alter the use of such Property, or materially and adversely affect the value thereof, or (C) to purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property;
8. easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property, which do not materially impair the use of such Property, or materially and adversely affect the value thereof;
(9) Liens arising by reason of good faith deposits with the School in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by the School to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal 2007 Bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

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

(11) rights of set-off or banker's lien with respect to funds on deposit with a financial institution in the ordinary course of business.

Casualty.

Immediately after the occurrence of loss or damage, the School shall notify the Borrower, the Authority, the Architect and the Trustee thereof. Any net insurance proceeds paid directly to the School shall be either (i) applied by the School and/or the Borrower as permitted by the Agreement or (ii) paid to the Trustee, if required pursuant to the Agreement, and applied as set forth therein. The School agrees to take all actions required to permit the Borrower to comply with the provisions of the Agreement.

If the Premises shall be damaged or destroyed by fire or other casualty, the Borrower, subject to the net insurance proceeds being made available to the Borrower under the Agreement for repair and restoration in accordance with the terms thereof, shall promptly repair, restore and replace the Premises to substantially the same condition as prior to the fire or other casualty.

Condemnation.

If all of the Premises is taken or condemned for a public or quasi-public use under any statute or by right of eminent domain by any competent authority or sold in lieu of such taking or condemnation, the Lease shall terminate as of the date the right of possession vests in the condemnor (the "Taking Date"). The rent reserved shall be apportioned and paid in full by the School to the Borrower to the Taking Date and all rent prepaid for periods beyond the Taking Date shall forthwith be repaid by the Borrower to the School and neither party shall thereafter have any liability under the Lease. The School may prosecute its own claim by separate proceedings against the condemnor for damages legally due to the School (such as leasehold improvements, fixtures and equipment, which the School was entitled to remove, and moving and related expenses); provided that the same does not reduce the award payable to the Borrower.

If only part of the Premises is so taken or condemned, the Borrower, subject to the net condemnation proceeds being made available to the Borrower, may elect (subject to the provisions of the Agreement) either to (i) replace or restore the part of the Premises affected by such taking or condemnation or (ii) to have all or part of the Net Condemnation Proceeds deposited in the Bond Funds. Any net condemnation proceeds paid directly to the School shall be either (i) applied by the School and/or the Borrower as permitted by the Agreement or (ii) paid to the Trustee, if required pursuant to the Agreement, and applied as set forth therein.

If the condemnor should take only the right to possession for a fixed period of time or for the duration of an emergency or other temporary condition, then, notwithstanding anything hereinabove provided, the Lease shall continue in full force and effect without any abatement of rent, but the amounts payable by
the condemnor with respect to any period of time prior to the expiration or sooner termination of the Lease shall be paid by the condemnor to the Borrower and the condemnor shall be considered a subtenant of the School. If the amounts payable by the condemnor are paid in monthly installments, the Borrower shall apply the amount of such installments, or as much thereof as may be necessary for the purpose, toward the amount of rent due from the School as rent for that period, and the School shall pay to the Borrower any deficiency between the monthly amount thus paid by the condemnor and the amount of the rent, while the Borrower shall pay over to the School any excess of the amount of the award over the amount of the rent.

Subletting and Assigning.

The School shall not mortgage, pledge or encumber the Lease, collaterally or otherwise. The School shall not assign the Lease, or sublet the whole or any part of the Premises, without on each occasion first obtaining the prior written consent of the Borrower, which consent shall not be unreasonably delayed or withheld. No subletting or assignment, with or without the Borrower's consent, shall in any way relieve or release the School from liability for the performance of all terms, covenants and conditions of the Lease.

Events of Default.

Each of the following shall constitute an Event of Default:

(a) The School failing to pay when due any Base Rent or failing to pay any other sum required to be paid by the School under the Lease within five days of the date when due.

(b) The School failing to perform any other covenant or condition contained in the Lease and such default continues for a period of thirty days, or if any default shall occur which cannot be cured within such thirty days, the School shall have not commenced to cure the same within such thirty day period and shall not have prosecuted such cure diligently thereafter.

(c) The School vacating or deserting the Premises or permitting the same to be empty or unoccupied.

(d) The School's charter is terminated after exhaustion of all administrative appeals, or, when eligible, the School failing to receive approval for renewal of the charter for less than a three year period.

(e) The filing by or against the School of a petition for adjudication as a bankrupt or insolvent, or for reorganization or appointment of a receiver or trustee of the School's property which, if voluntary, is not dismissed or stayed within ninety days; an assignment by the School for the benefit of creditors; or the taking possession of the School's property by any governmental officer or agency pursuant to statutory authority for its dissolution or liquidation.

(f) The occurrence of any Event of Default (as that term is defined in the Agreement), after any applicable grace periods.

(g) A breach shall occur (and continue beyond any applicable grace period) with respect to the performance of any agreement securing Debt of the School for borrowed money in an amount at least equal to $100,000 holder or holders of such Debt or a trustee or trustees under any such agreement accelerates such Debt; but an Event of Default shall not be deemed to be in existence or to be continuing under this clause (g) if (i) the School is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings or by agreement of the parties or (ii) such breach or event is remedied and the acceleration, if any, is wholly annulled. The School shall notify the Borrower, the Authority and the Trustee of any such breach or event immediately upon the School’s
becoming aware of its occurrence and shall from time to time furnish such information as the Borrower, the Authority or the Trustee may reasonably request for the purpose of determining whether a breach or event described in this clause (g) has occurred and whether such power of acceleration has been exercised or continues to be in effect.

(h) A final judgment or judgments are entered, or an order or orders of any judicial authority or governmental entity is issued against the School (such judgment(s) and order(s) being collectively referred to as "Judgment") (i) for the payment of money, which Judgment, in the aggregate exceeds $100,000 outstanding at any one time; or (ii) for injunctive or declaratory relief which would have an adverse material effect on the ability of the School to conduct its business, and such Judgment is not discharged or execution thereon or enforcement thereof stay pending appeal, within thirty (30) days after the entry or issuance thereof, or in the event of such a stay, such Judgment is not discharged within thirty (30) days after such stay expires.

(i) The School fails to deliver a report of a Management Consultant required by the Lease or fails to follow the recommendations set forth in such reports or if the School Historical Debt Service Coverage Ratio falls below 1.0.

Remedies.

Upon the occurrence of an Event of Default:

(a) The Borrower may, in writing delivered to the School, declare immediately due and payable the Base Rental, Additional Rental and all other charges due for the entire unexpired balance of the term of the Lease, in addition to any rent or other charges already due and payable as if by the terms of the Lease the whole balance of unpaid rent and other charges were due on that date payable in advance.

(b) The Borrower may terminate the Lease by written notice to the School, and, on the date specified in the notice, the School's right to possession shall cease and the Lease will be terminated (except as to the School's liability set forth in the following sentence). If the Borrower terminates the Lease, the Borrower may recover from the School a judgment for damages computed in accordance with the following formula, in addition to its other remedies: (1) the unpaid rent which has accrued up to the time of such termination plus interest from the dates such rent was due to the date of the judgment at the default rate; plus (2) the present value at the time of the judgment of the amount by which the unpaid rent which would have accrued (had the Lease continued) after termination until the date of the judgment exceeds the amount of such rental loss the School proves could have been reasonably avoided; plus (3) the amount (as discounted at the discount rate of the Federal Reserve Bank of Philadelphia) by which the unpaid rent which would have been earned (had the Lease continued) for the balance of the term of the Lease and any renewal or extension thereof for which the School had become bound prior to a default after the date of the judgment exceeds the amount of such rental loss that the School proves could have been reasonably avoided; plus (4) any other amount necessary to compensate the Borrower for all the detriment proximately caused by the School's failure to perform its obligations under the Lease or which in the ordinary course would be likely to result therefrom including, without limitation, the cost of repairing the Premises and reasonable attorneys' fees; plus (5) at the Borrower's election, such other amounts in addition to or in lieu of the foregoing as may be permitted by applicable law.

(c) The Borrower may terminate the School's right of possession and may reenter and repossess the Premises by legal proceedings, force or otherwise, without terminating the Lease. After reentry or retaking or recovering of the Premises, whether by termination of the Lease or not, the Borrower may, but shall be under no obligation to, make such alterations and repairs, as the Borrower may deem then necessary or advisable and relet the Premises or any part or parts thereof, either in the Borrower's name or otherwise, for a term or terms which may at the Borrower's option be less than or exceed the period which otherwise would have constituted the balance of the term of the Lease and at
such rent or rents and upon such other terms and conditions as in the Borrower's sole discretion may deem advisable and to such person or persons as may in the Borrower's discretion seem best. The School shall be liable for any loss of rent for such period as would be the balance of the term of the Lease and any renewal or extension for which the School had become bound prior to a default of the Lease plus the cost and expenses of reletting and of redecorating, remodeling or making repairs and alterations to the Premises for the purpose of reletting, the amount of such liability to be computed monthly and to be paid by the School to the Borrower from time to time upon demand. The Borrower shall in no event be liable for, nor shall any damages or other sums to be paid by the School to the Borrower be reduced by, failure to relet the Premises or failure to collect the rent from any reletting. The School shall not be entitled to any rents received by the Borrower in excess of the rents provided for in the Lease. The School agrees that the Borrower may file suit to recover any sums falling due under the terms of this clause from time to time and that no suit or recovery of any portion due the Borrower shall be any defense to any subsequent action brought for any amount not theretofore reduced to judgment in favor of the Borrower. The School, for the School and the School's successors and assigns, irrevocably constitutes and appoints the Borrower, the School's and their agent to collect the rents due or to become due under all Leases of the Premises or any parts thereof without in any way affecting the School's obligation to pay any unpaid balance of rent or any other sum due or to become due. Notwithstanding any reletting without termination, the Borrower may at any time thereafter elect to terminate the Lease for the School's previous breach.

Remedies Cumulative.

All remedies available to the Borrower under the Lease and at law and in equity shall be cumulative and concurrent. No termination of the Lease nor taking or recovering possession of the Premises shall deprive the Borrower of any remedies or actions against the School for rent, for charges or for damages for the breach of any covenant, agreement or condition contained in the Lease, nor shall the bringing of any such action for rent, charges or breach of covenant, agreement or condition, nor the resort to any other remedy or right for the recovery of rent, charges or damages for such breach be construed as a waiver or release of the right to insist upon the forfeiture and to obtain possession. No re-entering or taking possession of the Premises, or making of repairs, alterations or improvements thereto, or reletting thereof, shall be construed as an election on the part of the Borrower to terminate the Lease unless written notice of such election be given by the Borrower to the School. The failure of the Borrower to insist upon strict and/or prompt performance of the terms, agreements, covenants and conditions of the Lease or any of them, and/or the acceptance of such performance thereafter shall not constitute or be construed as a waiver of the Borrower's right to thereafter enforce the same strictly according to the terms thereof in the event of a continuing or subsequent default.

No Waiver.

Any failure of the School or the Borrower to enforce any remedy allowed for the violation of any provision of the Lease shall not imply the waiver of any such provision, even if such violation is continued or repeated, and no express waiver shall affect any provision other than the one(s) specified in such waiver and only for the time and in the manner specifically stated. No receipt of monies by the Borrower from the School after the termination of the Lease shall in any way (a) alter the length of the term of the Lease or of the School's right of possession, or (b) after the giving of any notice, reinstate, continue or extend the term of the Lease or affect any notice given to the School prior to the receipt of such monies, it being agreed that after the service of notice or the commencement of a suit or after final judgment for possession of the Premises, the Borrower may receive and collect any rent due, and the payment of said rent shall not waive or affect said notice, suit or judgment.
The Mortgage

Obligations.

The Mortgage is executed, acknowledged and delivered by the Borrower to secure and enforce the following obligations and liabilities (collectively, the "Obligations"): (A) all amounts (including principal, interest, as the same may vary, fees and other charges) now or hereafter owing by the Borrower under the Agreement with respect to the obligations of the Borrower and/or the Authority under the following: (i) the Agreement; (ii) the 2007 Bonds; (iii) the Mortgage and any other agreement, document or instrument now or hereafter executed or delivered in connection with the transactions described in the Agreement; and (iv) all modifications, amendments, supplements, renewals, replacements or extensions of any of the foregoing; (B) any and all advances made by the Trustee to protect or preserve the mortgaged property or the lien of the Mortgage, including advances for Impositions (as hereinafter defined) and insurance premiums; and the performance of all of the terms, covenants, conditions, agreements, obligations and liabilities of the Borrower or any other obligor or guarantor under the Agreement, the Mortgage, and any other document now or hereafter given to evidence, secure or facilitate the payment and performance of any of the Obligations; and all extensions, renewals, replacements or modifications of, or amendments or additions to any of the foregoing.

Mortgaged Property.

The Borrower has granted, conveyed, bargained, sold, aliened, enfeoffed, released, confirmed, assigned to, granted a security interest in and mortgaged unto the Trustee all of the following whether presently in existence or to come into existence at some future time:

(a) All of the Borrower’s right, title and interest in, to and under the Lease.

(b) All of the Borrower’s right, title and interest in and to the leasehold estate created by the Lease in and to the parcel of land described in the Lease (the "Real Estate").

(c) All of the Borrower’s right, title and interest in and to all buildings and improvements now or hereafter erected on the Real Estate.

(d) The appurtenances and all the estate and rights of the Borrower of, in and to the Premises under and by virtue of the Lease.

(e) Together with all of the Borrower’s right, title and interest now owned or hereafter acquired in: (i) all renewals, extensions, amendments and modifications of the Lease; (ii) all credits, deposits, all purchase and other options, privileges and rights of the Borrower; and in case the Borrower acquires, whether by exercise of any present or future option, or by any other manner, the fee title or any other estate, title or interest in the Real Estate, this Mortgage shall attach to and cover and be a lien upon the fee title or other estate so acquired, and such fee title or other estate shall, without further assignment, mortgage or conveyance, become and be subject to the lien of and covered by this Mortgage; (iii) all present and future leases, Leases and other occupancy agreements covering all or any portion of the Premises and/or the improvements thereon, including, without limitation, the Lease; (iv) all rents, issues and profits payable under any Lease and under any future renewals, extensions, amendments or modifications thereof; (v) any and all tenements, hereditaments and appurtenances belonging to the Real Estate or any part thereof, or in any way appertaining thereto, and all streets, alleys, passages, ways, water courses, and all leasehold estates, easements and covenants now existing or hereafter created for the benefit of the Borrower or any subsequent owner or tenant of the Real Estate over ground adjoining the Real Estate and all rights to enforce the maintenance thereof, and all other rights, liberties and privileges of whatsoever kind or character, and all the estate, right, title, interest, property, possession, claim and demand whatsoever, at law or in equity, of the Borrower in and to the Real Estate or any part thereof; (vi) all leases, management agreements, service contracts, license agreements, concession agreements, written
or oral, relating to the use and occupancy of the Real Estate and improvements thereon now or hereafter existing and the reversions and remainders, income, rents, issues and profits arising therefrom and all deposits (including tenant security deposits) thereunder, and all rights and benefits now or hereafter accruing to the Borrower under any and all guarantees of the obligations of any tenant, licensee, concessionaire or other occupant thereunder, as any of the foregoing may be amended, extended, renewed or modified from time to time; (vii) All reciprocal easement agreements, operating agreements, and similar agreements however labeled or denominated affecting the Real Estate and improvements thereon; (viii) all other documentation now or hereafter existing in connection with the use or operation of the Real Estate and the improvements thereon.

(f) All Goods delivered on site to the Real Estate during the course of, or in connection with, the construction of, or reconstruction of, or remodeling of, any of the Real Estate from time to time during the term hereof.

(g) All Accounts and General Intangibles relating to the use, construction upon, occupancy, leasing, sale or operation of the Real Estate.

(h) All As-Extracted Collateral arising from the Real Estate.

(i) All books and records evidencing or relating to the foregoing.

(j) All Proceeds of any of the above-described property.

Capitalized terms used above without definition shall have the meanings ascribed to them in revised Article 9 of the Uniform Commercial Code.

Events of Default.

The occurrence of any one or more of the following events shall, at the election of Trustee, constitute an Event of Default under the Mortgage: (a) any Event of Default under the Agreement; (b) any breach of warranty or other violation of any provision regarding title in Mortgage; (c) nonperformance of, or noncompliance with, any of the agreements, covenants, conditions, warranties, representations or other provisions contained in the Mortgage (if and only to the extent not included in any of the occurrences listed above), which nonperformance or noncompliance is not cured and remedied within thirty (30) days after notice thereof is given to the Borrower; provided if such nonperformance or noncompliance required work to be done, actions to be taken or conditions to be remedied, which by their nature cannot be reasonably 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 or compliance with such thirty (30)-day period and shall diligently and continuously prosecute the same to completion.

Remedies.

Upon the occurrence and during the continuance of an Event of Default, the Trustee shall have the right to: (A) enforce its rights under the Mortgage and the Agreement by exercising such remedies as are available to the Trustee under applicable law, either by suit in equity or action at law, or both, whether for specific performance of any provision contained in this Mortgage or the Agreement or in aid of the exercise of any power granted in this Mortgage or the Agreement; (B) obtain judgment for the Obligations together with interest on such judgment at the default rate until payment in full is received by the Trustee and the Trustee shall have the right to obtain execution upon the mortgaged property on account of such judgment; and (C) institute an action of mortgage foreclosure against the mortgaged property or take such other action for realization on the security intended to be provided under the Mortgage as applicable law or the provisions of the Agreement may allow.
APPENDIX D

FORM OF BOND COUNSEL OPINION
We have served as Bond Counsel to the Bucks County Industrial Development Authority (the "Authority") in connection with the issuance of $11,000,000 aggregate principal amount of its Revenue Bonds (School Lane Charter School Project), Series of 2007A (the "2007A Bonds") and the issuance of $300,000 aggregate principal amount of its Revenue Bonds (School Lane Charter School Project), Series of 2007B (Taxable) (the "2007B Bonds," and together with the 2007A Bonds, the "2007 Bonds"). The 2007 Bonds are issued under and pursuant to the Pennsylvania Municipality Authorities Act, as amended (the "Act"), the Loan and Trust Agreement (the "Agreement") dated as of April 17, 2007 between the Authority, School Lane Foundation, a Pennsylvania nonprofit corporation (the "Borrower") and The Bank of New York, as trustee (the "Trustee"), and pursuant to resolutions of the Authority adopted on May 4, 2006, December 7, 2006, and April 5, 2007, authorizing the issuance of the Bonds (the "Resolutions").

The 2007 Bonds are fixed rate bonds dated as of April 17, 2007, and will bear interest from such dated date at the rates, and mature in the amounts and on the dates set forth on the cover page of the Official Statement of the Authority related to the 2007 Bonds dated April 5, 2007. The 2007 Bonds will be issued only as fully registered bonds in denominations of $100,000, and integral multiples of $5,000 in excess thereof. The 2007 Bonds are subject to redemption prior to maturity as more fully described in the Agreement. Interest on the 2007 Bonds will be calculated on the basis of a 360-day year.
of twelve 30-day months payable on each March 15th and September 15th, commencing on September 15, 2007.

The 2007 Bonds are being issued to finance a portion of a project (the "Project") of the Borrower consisting of: (i) the acquisition of land at 2400 Bristol Pike in Bensalem Township, Bucks County, Pennsylvania (the “Land”) and a building located on the Land (the “Existing Building”) and the construction of a new school building (the “New Building”) on the Land adjacent to the Existing Building (the Existing Building and the New Building are collectively referred to as the “School Buildings”); (ii) a debt service reserve fund for the 2007 Bonds; (iii) miscellaneous capital expenses; and (iv) paying the costs of issuing the 2007 Bonds.

The Borrower will lease the School Buildings and the Land (collectively the "Premises") to School Lane Charter School (the "School"), a Pennsylvania nonprofit corporation and a charter school duly organized and validly existing under Act 22 of 1997 of the Commonwealth of Pennsylvania, pursuant to the terms of a Lease, dated April 17, 2007 (the "Lease") by and between the Borrower and the School.

Under the Agreement, the Authority will loan the proceeds of the 2007 Bonds to the Borrower to pay a portion of the costs of the Project, and the Borrower covenants to repay such loan by making payments sufficient to, among other things, pay debt service on the 2007 Bonds, as and when due. In order to provide a source of payment and security for the 2007 Bonds, the Authority has transferred and assigned to the Trustee all of its right, title and interest in the Agreement (except for the reserved rights as described in the Agreement which include its right to payment of expenses and indemnification) and all amounts payable by the Borrower thereunder.

Under the Lease, the School will pay rent for the Premises to the Borrower in amounts sufficient to permit the Borrower to, among other things, pay debt service on the 2007 Bonds, as and when due. The Lease and rental payments thereunder will be assigned to the Trustee pursuant to a Mortgage, Assignment of Leases, Security Agreement and Fixture Filing dated as of April 17, 2007 (the "Mortgage") as security for the 2007 Bonds.

Both the Borrower and the School are exempt from federal income taxation pursuant to Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code") as a result of the application of Section 501(c)(3) of the Code (a "501(c)(3) Organization").

We have examined the proceedings relating to the authorization and issuance of the 2007 Bonds, including, among other things: (a) the Act and the Articles of Incorporation and Bylaws of the Authority; (b) a certified copy of the Resolutions; (c) executed counterparts of the Agreement, the Lease, and the Mortgage, (d) certificates executed by the Authority and the Trustee as to the execution and authentication of the 2007 Bonds; (e) various other certificates executed by the Authority, the Borrower and the School, including a certificate with regard to Sections 103 and 141 through 150 of the
Code; and (f) the Form 8038 of the Authority with respect to the 2007A Bonds. In rendering our opinion, we have not undertaken to verify the factual matters set forth in such agreements, certificates and other documents by independent investigation and have relied on the covenants, warranties and representations made by the Authority and the Borrower in such certificates and in the Agreement, the Lease, the Mortgage and other financing documents.

From our examination of the foregoing and such other items as we deem relevant, we are of the opinion that:

1. The Authority is validly existing under the Act and has the power to issue the 2007 Bonds for the purpose of financing the Project and to loan the proceeds of the 2007 Bonds to the Borrower under the Agreement.

2. The 2007 Bonds have been duly authorized, executed and delivered by the Authority, are valid and binding special obligations of the Authority, payable as to principal, interest and all other obligations thereunder solely from and enforceable only against the revenues and receipts derived from the Borrower, including amounts payable under the Agreement, the Mortgage and the Lease, and any other properties and rights assigned or pledged as security for the debt evidenced by the 2007 Bonds, except as enforcement may be limited by bankruptcy, insolvency, moratorium and other similar laws and equitable principles affecting creditors' rights and remedies generally, and by the exercise of judicial discretion in accordance with general principles of equity.

3. The Authority has the power to enter into the Agreement, which has been duly authorized, executed and delivered by the Authority, and the Agreement is enforceable against the Authority in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, moratorium and other similar laws and equitable principles affecting creditors' rights and remedies generally, and by the exercise of judicial discretion in accordance with general principles of equity.

4. Under existing laws of the Commonwealth of Pennsylvania (the "Commonwealth"), the interest on the 2007A Bonds is free from Pennsylvania personal income taxation and Pennsylvania corporate net income taxation, but such exemption does not extend to gift, estate, succession or inheritance taxes or any other taxes not levied or assessed directly on the 2007A Bonds or the interest thereon.

5. Interest on the 2007A Bonds is excluded from gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion set forth in the preceding sentence is subject to the condition that the Authority, the Borrower and the School comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the 2007A Bonds in order that interest thereon continues to be excluded from gross income for purposes of federal income taxation. Failure to comply with all of such
requirements could cause the interest on the 2007A Bonds to be includable in gross income retroactive to the date of issuance of the 2007A Bonds. The Authority, the Borrower and the School have covenanted to comply with all such requirements. Interest on the 2007A Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, we call to your attention that under the Code, to the extent that interest on the 2007A Bonds is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the corporate alternative minimum tax. We express no opinion regarding other federal tax consequences relating to the 2007A Bonds or the receipt of interest thereon.

We express no opinion on such title matters or on the validity or priority of any liens on or security interests in the Properties or the Pledged Revenues.

We express no opinion herein on the adequacy, completeness or accuracy of any official statement, placement memorandum or other disclosure document pertaining to the offering of the 2007 Bonds.

We call to your attention that the 2007 Bonds do not pledge the general credit or taxing power of the Commonwealth or any political subdivision, agency or instrumentality of the Commonwealth, nor shall the Commonwealth or any political subdivision, agency or instrumentality thereof be liable for the payment of the principal of or interest on the 2007 Bonds (other than the Authority, to the extent described herein).

Very truly yours,

LATSHA DAVIS YOHE & MCKENNA, P.C.
APPENDIX E

FORM OF DISCLOSURE DISSEMINATION AGREEMENT
$11,300,000
Bucks County Industrial Development Authority
Revenue Bonds
(School Lane Charter School Project)
Series of 2007A and 2007B

DISCLOSURE DISSEMINATION AGREEMENT

This Disclosure Dissemination Agreement ("Disclosure Agreement") dated as of April 17, 2007, is executed and delivered by and among School Lane Charter School (the “School”), School Lane Foundation (the “Foundation”), and Digital Assurance Certification, L.L.C., as dissemination agent ("Dissemination Agent") in connection with the issuance and sale by the Bucks County Industrial Development Authority (the “Authority”) of $11,300,000 aggregate principal amount Revenue Bonds (School Lane Charter School Project) Series of 2007A and 2007B (“the "Bonds").

The Bonds are being issued pursuant to a Loan and Trust Agreement (the “Agreement”) dated as of April 17, 2007, between the Authority, the Foundation and The Bank of New York, as trustee (the “Trustee”), and payments on the Bonds are anticipated to be made out of lease payments from the School under a lease of the School Buildings (as defined in the Agreement) from the Foundation to the School, which lease is pledged as security for the Bonds. Both the Foundation and the School (together, the “Obligated Persons”) are each an “obligated person” with respect to the Bonds under the Rule (as defined below).

In consideration of the mutual covenants, promises and agreements contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

Section 1. Definitions.

In this Disclosure Agreement and any agreement supplemental hereto (except as otherwise expressly provided for unless the context clearly otherwise requires) terms defined in the recitals hereto shall have such meanings throughout this Disclosure Agreement, and, in addition, the following terms shall have the meanings specified below:

“Annual Report” means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

"Business Day" or "Business Days" shall mean any day other than a Saturday or Sunday or, in Philadelphia, Pennsylvania, a legal holiday or a day on which banking institutions are authorized by law to close or a day on which the Dissemination Agent is closed.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, audited financial statements, other information or Material Event notice delivered to the Disclosure Dissemination Agent is the Annual Report, audited financial statements, other information or Material Event notice required to be submitted to the Repositories under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by an Obligated Person and include
the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

"Disclosure Representative” shall mean the Fiscal Manager of the School.

"Financial Information" shall mean the financial information or operating data described in Section 3(a) and (b) hereof. The financial statements contained in the Financial Information will be prepared according to accounting methods and procedures, which conform to generally accepted accounting principles for the Obligated Persons as prescribed by the Financial Accounting Standards Board.

"Material Event" shall mean any of the events listed in Section 4(a) of this Disclosure Agreement, if material within the meaning of the Rule.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Obligated Person" shall have the meaning set forth in the Rule.

"Official Statement" shall mean the Official Statement dated ________, 2007, relating to the Bonds.

"Participating Underwriters" shall mean any of the original underwriter or underwriters of the Bonds required to comply with the Rule in connection with their purchase and reoffering of the Bonds.

"Registered Owner" or "Owners” shall mean the person or persons in whose name a Bond is registered by the Trustee in accordance with the Agreement. For so long as the Bonds shall be registered in the name of the Securities Depository or its nominee, the term "Registered Owners" shall also mean and include, for the purposes of this Disclosure Agreement, the owners of book-entry credits in the Bonds evidencing an interest in the Bonds; provided, however, that the Dissemination Agent shall have no obligation to provide notice hereunder to owners of book-entry credits in the Bonds; except those who have filed their names and addresses with the Dissemination Agent for the purposes of receiving notices or giving direction under this Disclosure Agreement.

"Repository" or "Repositories" shall mean each nationally recognized municipal securities information repository which has received a no-action letter from the staff of the Securities and Exchange Commission recognizing it as such a repository. The Repositories as of the date of this Disclosure Agreement are set forth in Appendix A annexed hereto and made apart hereof.

"Rule" shall mean Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as such Rule may be amended from time to time.

"Securities Depository" shall mean The Depository Trust Company, New York, New York, or its nominee, Cede & Co., or successor thereto appointed pursuant to the Indenture.
“State Information Depository" shall mean any public or private repository designated by the Commonwealth of Pennsylvania as a state information depository within the meaning of the Rule. As of the date of this Disclosure Agreement, there is no State Information Depository.

All words and terms used in this Disclosure Agreement and not defined above or elsewhere herein shall have the same meanings as set forth in the Agreement.

Section 2. Authorizing and Purpose of Disclosure Agreement

This Disclosure Agreement is authorized to be executed and delivered by the Obligated Persons in order to enable the Participating Underwriter or Underwriters to comply with the requirements of the Rule.

Section 3. Financial Information

(a) The School shall file with the Dissemination Agent:

(1) within 30 days after the end of each month:

(i) its unaudited management-prepared financial statements for such month including a statement of revenues and expenses, balance sheet and cash flow statements setting forth actual cash flow for the month and comparing budgeted to actual operations;

(ii) until such time as the School has enrollment of at least 575 students for three (3) consecutive school years, measured as of the end of each school year, an update on enrollment in the School, including retention rates measured from the start of the applicable school year;

(iii) until a certificate of occupancy is issued for the New Building (as defined in the Official Statement), an update on the construction of the New Building, including estimated percentage of completion; and

(2) within 180 days after the end of each Fiscal Year commencing with the Fiscal Year ending June 30, 2007, the following information: (i) a copy of its annual financial statements prepared in accordance with generally accepted accounting principles and audited by an Accountant, which financial statements shall be accompanied by a calculation for such Fiscal Year of compliance with the Historical Debt Service Coverage Ratio required by the Agreement; and (ii) annual updated operating information for the School of the type included in Appendix A of the Official Statement under the captions “Student Demographics and Performance” and “Waiting List”.

(3) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 12:00 noon on the first business day following the annual filing date for the Annual Report for the School, the Obligated
Persons irrevocably direct the Disclosure Dissemination Agent to immediately send a notice to each Repository or the MSRB and the State Information Depository (if any) in substantially the form attached as Appendix B.

(b) The Foundation shall file with the Dissemination Agent within 180 days after the end of each Fiscal Year commencing with the Fiscal Year ending June 30, 2007, a copy of annual financial statements of the Foundation prepared in accordance with generally accepted accounting principles and audited by an Accountant.

(c) The Dissemination Agent shall promptly upon receipt thereof file the Financial Information described in paragraphs (a) and (b) with each Repository and with the State Information Depository, if any.

(d) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 12:00 noon on the first business day following the annual filing date for the Annual Report for the Foundation, the Obligated Persons irrevocably direct the Disclosure Dissemination Agent to immediately send a notice to each Repository or the MSRB and the State Information Depository (if any) in substantially the form attached as Appendix B.

Section 4. Material Events

(a) The Obligated Persons agree that they shall provide through the Dissemination Agent, in a timely manner, to each Repository or to the MSRB and to the State Information Depository, if any, notice of any of the following events with respect to the Bonds if material within the meaning of the Rule (each a "Material Event"): (1) Principal and interest payment delinquencies; (2) Non-payment related defaults; (3) Unscheduled draws on debt service reserves reflecting financial difficulties; (4) Unscheduled draws on credit enhancements reflecting financial difficulties; (5) Substitution of credit or liquidity providers or their failure to perform; (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) Modifications to the rights and holders of the Bonds; (8) Bond calls; (9) Defeasances; (10) Release, substitution or sale of property securing repayment of the Bonds; and (11) Rating Changes.
The foregoing eleven (11) events are quoted from the Rule. No liquidity facility is being obtained for the Bonds. No mandatory redemption shall be deemed a Material Event.

(b) Whenever the Obligated Persons conclude that a Material Event has occurred, the Disclosure Representative shall promptly notify the Dissemination Agent in writing of such occurrence, specifying the Material Event. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with each Repository or the MSRB and the State Information Depository, if any. Upon receipt, the Dissemination Agent shall promptly file such notice with each Repository or the MSRB and the State Information Depository, if any. In addition, the Dissemination Agent shall promptly file with the each Repository or the MSRB and the State Information Depository, if any, notice of any failure by the Obligated Persons or the Dissemination Agent to timely file the Financial Information as provided in Section 3 hereof, including, any failure by the Obligated Persons or the Dissemination Agent to provide the Financial Information on or before the dates specified in Section 3(a) hereof. Any filing with each Repository, the MSRB and the State Information Depository, if any, shall be accompanied by the form annexed hereto as Appendix B and made a part hereof.

(c) Notwithstanding the foregoing, the Dissemination Agent shall, promptly after obtaining actual knowledge of an event listed in clauses (a), (1), (4), (8), (9) notify the Disclosure Representative of the occurrence of such event and shall, within five (5) Business Days of giving notice to the Disclosure Representative, file notice of such occurrence with the MSRB and the State Information Depository, if any, unless the Disclosure Representative gives the Dissemination Agent written instructions not to file such notice because the event has not occurred or the event is not material within the meaning of the Rule.

(d) The Dissemination Agent shall prepare an affidavit of mailing for each notice delivered pursuant to clauses (b) and (c) of this Section 4 and shall deliver such affidavit to the Obligated Persons no later than three (3) Business Days following the date of delivery of such notice.

(e) The Dissemination Agent shall request the return from each Repository, the MSRB and the State Information Depository, if any, of written acknowledgment or receipt of any notice delivered to each Repository, the MSRB and the State Information Depository, if any. Upon the return of all completed acknowledgments of a notice, the Dissemination Agent shall prepare an affidavit of receipt specifying the date and hour of receipt of such notice by each recipient to the extent such information has been provided to the Dissemination Agent. Such affidavit of receipt shall be delivered to the Obligated Persons no later than three (3) Business Days following the date of receipt by the Dissemination Agent of the last completed acknowledgment.

Section 5. Amendment; Waiver

(a) Notwithstanding any other provision of this Disclosure Agreement, the Obligated Persons and the Dissemination Agent may amend the Disclosure Agreement or waive any of the provisions hereof, provided that no such amendment or waiver shall be executed by the parties hereto or effective unless:
(i) the amendment or waiver is made in writing and in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in identity, nature or status of the Obligated Persons or the operations of the Obligated Persons;

(ii) the Disclosure Agreement, as amended by the amendment or waiver, would have been the written undertaking contemplated by the Rule at the time of original issuance of the Bonds after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver does not materially impair the interests of the Registered Owner of the Bonds.

(b) Evidence of compliance with the conditions set forth in clause (a) of this Section 5 shall be satisfied by the delivery to the Dissemination Agent of an opinion of counsel having recognized experience and skill in the issuance of municipal securities and federal securities law, acceptable to both the Obligated Persons and the Dissemination Agent, to the effect that the amendment or waiver satisfies the conditions set forth in clauses (a)(i), (ii), and (iii) of this Section 5.

(c) Notice of any amendment or waiver containing an explanation of the reasons therefore shall be given by the Disclosure Representative to the Dissemination Agent upon execution of the amendment or waiver and the Dissemination Agent shall promptly file such notice with each Repository, and shall promptly file such notice with the MSRB, and the State Information Depository, if any, The Dissemination Agent shall also send notice of the amendment or waiver to each Registered Owner including owners of book-entry credits in the Bonds who have filed their names and addresses with the Trustee.

Section 6. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent’s obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Obligated Persons have provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Obligated Persons and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Obligated Persons’ failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Obligated Persons have complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Obligated Persons at all times.
THE OBLIGATED PERSONS AGREE TO INDEMNIFY AND SAVE THE DISCLOSURE DISSEMINATION AGENT AND ITS RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, HARMLESS AGAINST ANY LOSS, EXPENSE AND LIABILITIES WHICH THEY MAY INCUR ARISING OUT OF OR IN THE EXERCISE OR PERFORMANCE OF THEIR POWERS AND DUTIES HEREUNDER, INCLUDING THE COSTS AND EXPENSES (INCLUDING ATTORNEYS FEES) OF DEFENDING AGAINST ANY CLAIM OF LIABILITY, BUT EXCLUDING LIABILITIES DUE TO THE DISCLOSURE DISSEMINATION AGENT’S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

The obligations of the Obligated Persons under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and neither of them shall incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The fees and expenses of such counsel shall be payable by the Obligated Persons.

(c) Nothing in this Disclosure Agreement shall preclude the Obligated Persons from disseminating any other information with respect to the Obligated Persons or the Bonds, using the means of communication provided in this Disclosure Agreement or otherwise, in addition to the Financial Information and the notices of Material Events specifically provided for herein, nor shall the Obligated Persons be relieved of complying with any applicable law relating to the availability and inspection of public records. Any election by the Obligated Persons to furnish any information not specifically provided for herein in any notice given pursuant to this Disclosure Agreement or by the means of communication provided for herein shall not be deemed to be an additional contractual undertaking and the Obligated Persons shall have no obligation to furnish such information in any subsequent notice or by the same means of communication.

(d) Except as expressly set forth in this Disclosure Agreement, the Dissemination Agent shall have no responsibility for any continuing disclosure to the Registered Owners, the MSRB, any Repository or State Information Depository.

Section 7. Default

(a) In the event that the Obligated Persons or the Dissemination Agent fails to comply with any provision of this Disclosure Agreement, the Dissemination Agent or any Registered Owner of the Bonds shall have the right, by mandamus, suit, action or proceeding at law or in equity, to compel the Obligated Persons or the Dissemination Agent to perform each and every term, provision and covenant contained in this Disclosure Agreement. The Dissemination Agent shall be under no obligation to take any action in respect of any default hereunder unless it has received the direction in writing to do so by the Registered Owners of at least 25% of the outstanding principal amount of the Bonds and if, in the Dissemination Agent's
opinion, such action may tend to involve expense or liability, unless it is also furnished with indemnity and security for expenses satisfactory to it.

(b) A default under the Disclosure Agreement shall not be or be deemed to be an Event of Default under the Bonds, the Agreement or any other agreement related thereto and the sole remedy in the event of a failure of the Obligated Persons or the Dissemination Agent to comply with the provisions hereof shall be the action to compel performance described in Section 7(a) above.

Section 8. Concerning the Dissemination Agent

(a) The Dissemination Agent accepts and agrees to perform the duties imposed on it by this Disclosure Agreement, but only upon the terms and conditions set forth herein. The Dissemination Agent shall have only such duties in its capacity as are specifically set forth in this Disclosure Agreement. The Dissemination Agent, may execute any powers hereunder and perform any duties required of it through attorneys, agents, and other experts, officers, or employees, selected by it, and the written advice of such counsel or other experts shall be full and complete authorization and protection in respect of any action taken, suffered of omitted by it hereunder in good faith and in reliance thereon. The Dissemination Agent shall not be answerable for the default or misconduct of any attorney, agent, expert or employee selected by it with reasonable care. The Dissemination Agent shall not be answerable for the exercise of any discretion or power under this Disclosure Agreement or liable to the Obligated Persons or any other person for actions taken hereunder, except for its own willful misconduct or negligence.

(b) The Obligated Persons shall pay the Dissemination Agent reasonable compensation for its services hereunder, and also all of its reasonable expenses and disbursements, including reasonable fees and expenses of its counsel or other experts, as shall be agreed upon by the Dissemination Agent and the Obligated Persons. Nothing in this Section 8(b) shall be deemed to constitute a waiver of governmental immunity by the Obligated Persons. The provisions of this paragraph shall survive termination of this Disclosure Agreement.

(c) The Dissemination Agent may act on any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, or other paper or document which it in good faith believes to be genuine and to have been passed or signed by the proper persons or to have been prepared and furnished pursuant to any of the provisions of this Disclosure Agreement; and the Dissemination Agent shall be under no duty to make any investigation as to any statement contained in any such instrument, but may accept the same as conclusive evidence of the accuracy of such statement in the absence of actual notice to the contrary. The Dissemination Agent shall be under no obligation to institute any suit, or to take any, proceeding under this Disclosure Agreement, or to enter any appearance or in any way defend in any suit in which it may be made a defendant, or to take any steps in the execution of the duties hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified by the Registered Owners to its satisfaction against any and all costs and expenses, outlays and counsel fees and expenses and other reasonable disbursements, and against all liability; the Dissemination Agent may, nevertheless, begin suit or appear in and defend suit, or do anything else in its judgment proper to be done by it as Dissemination Agent, without indemnity.
Section 9. Term of Disclosure Agreement

This Disclosure Agreement shall terminate (1) upon payment or provision for payment in full of the Bonds, or (2) upon repeal or rescission of Section (b)(5) of the Rule, or (3) upon a final determination that Section (b)(5) of the Rule is invalid or unenforceable.

Section 10. Beneficiaries

This Disclosure Agreement shall inure solely to the benefit of the Obligated Persons, the Dissemination Agent and the Registered Owners from time to time of the Bonds and nothing herein contained shall confer any right upon any other person.

Section 11. Notices

Any written notice to or demand may be served, presented or made to the persons named below and shall be sufficiently given or filed for all purposes of this Disclosure Agreement if deposited in the United States mail, first class postage prepaid or in a recognized form of overnight mail or by telecopy with confirmation of receipt, addressed:

(a) To the Dissemination Agent at:

Digital Assurance Certification LLC
390 North Orange Avenue, Suite 1750
Orlando, FL 32801
Attention: Nicole Sheehan
Fax: (407) 515-6513

(b) To the School and the Foundation at:

School Lane Charter School
2400 Bristol Pike
Bensalem, PA 19020
Attention: Fiscal Manager
Fax: 215-245-6058

   School Lane Foundation
   2400 Bristol Pike
   Bensalem, PA 19020
   Attention: President
   Fax: 215-245-6058

(c) To the MSRB at:

Municipal Securities Rulemaking Board 1900 Duke Street Suite 600
Alexandria, VA 22314
Fax: (103) 797-6700

or such other addresses as may be designated in writing to all parties hereto.
Section 12. No Personal Recourse

No personal recourse shall be had for any claim based on this Disclosure Agreement against any member, officer, or employee, past, present or future, of the Obligated Persons (including without limitation the Disclosure Representative), or of any successor body as such, either directly or through the Obligated Persons or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty otherwise.

Section 13. Controlling Law

The laws of the Commonwealth of Pennsylvania shall govern the construction and interpretation of this Disclosure Agreement.

Section 14. Removal and Resignation of Dissemination Agent

(a) The Obligated Persons may discharge the Dissemination Agent by notice in writing mailed postage prepaid to the Dissemination Agent; provided, however, that the Obligated Persons shall provide written notice to the Trustee upon the engagement or discharge of any Dissemination Agent, and shall provide the name, address and telephone number of any successor Dissemination Agent. The Obligated Persons shall cause any successor Dissemination Agent appointed hereunder and any further successors to execute and deliver an acknowledgement of acceptance of the designation and duties of Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the School shall be the Dissemination Agent.

(b) The Dissemination Agent may resign and thereby become discharged from its duties as such under this Disclosure Agreement by notice in writing mailed postage prepaid to the Obligated Persons, such resignation to become effective on the later of (i) the tenth (10th) business day following the Obligated Persons' receipt or notice thereof (or at such different date and time as stated in such notice) and (ii) the Obligated Persons' appointment of a new Dissemination Agent hereunder or the School’s notice to the Dissemination Agent and the Trustee that the School has determined to act itself in such capacity.

Section 15. Central Post Office.

The Dissemination Agent may forward any of the information which would otherwise go to each Repository and State Information Depository to such electronic filing systems and entities as are approved by the Securities and Exchange Commission (the “SEC”) by interpretative letter or “no action” letter for receipt of this type of information under the continuing disclosure requirements of the Rule (a “Central Post Office.”). Filing of such information with a Central Post Office shall be in lieu of a filing with each Repository and State Information Depository, if any, on the part of the Obligated Persons and shall relieve the Dissemination Agent of such obligation. As of the date hereof, the only Central Post Office recognized by the SEC is DisclosureUSA whose website address is www.disclosureusa.org and whose address is c/o Municipal Advisory Council of Texas, 600 8th Street, Austin, Texas 78701; Fax: 512-476-6403.
Section 16. Successors and Assigns

All of the covenants, promises and agreements contained in this Disclosure Agreement by or on behalf of the Obligated Persons or by or on behalf of the Dissemination Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

Section 17. Headings for Convenience Only

The descriptive headings in this Disclosure Agreement are inserted for convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 18. Counterparts

This Disclosure Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute but one and the same instrument.

Section 19. Entire Agreement

This Disclosure Agreement sets forth the entire understanding and agreement of the Obligated Persons and the Dissemination Agent with respect to the matters herein contemplated and no modification or amendment of or supplement to this Disclosure Agreement shall be valid or effective unless the same is in writing and signed by the parties hereto.
IN WITNESS WHEREOF, School Lane Charter School and the School Lane Foundation have caused this Disclosure Agreement to be executed by their authorized officers and Digital Assurance Certification, L.L.C., as Dissemination Agent, has caused this Disclosure Agreement to be executed by one of its authorized officers, all as of the day and year first above written.

SCHOOL LANE CHARTER SCHOOL

By:_____________________________
Title:

SCHOOL LANE FOUNDATION

By:_____________________________
Title:

DIGITAL ASSURANCE CERTIFICATION, L.L.C.
as Dissemination Agent

By:_____________________________
Title:
APPENDIX A

REPOSITORIES

Any information to be provided to the Repositories pursuant to this Disclosure Agreement shall be sent via United States mail, first class postage prepaid, or a recognized form of overnight mail to each of the Repositories. The names and addresses of the Repositories designated as such as of the date hereof are as follows:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07027
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdate.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
Phone (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
Email: NRMSIR@FTID.com

Standard & Poor’s J.J. Kenny Repository
55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com
APPENDIX B

MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

This cover sheet and material event notice should be sent to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and the State Information Depository, if applicable, pursuant to Securities and Exchange Commission Rule 15c2-12 or any analogous state statute.

Issuer’s and/or Other Obligated Person’s Name: ________________________________
CUSIP Numbers (attach additional sheet if necessary): __________________________

☐ Nine-Digit CUSIP Number(s) to which this material event notice relates:

☐ Information relates to all securities issued by issuer having the following six-digit numbers: __________________________

Number of pages attached material event notice: ________________________________

Description of Material Events Notice (Check One)

1. ___ Principal and interest payment delinquencies
2. ___ Non-Payment related defaults
3. ___ Unscheduled draws on debt service reserves reflecting financial difficulties
4. ___ Unscheduled draws on credit enhancements reflecting financial difficulties
5. ___ Substitution of credit or liquidity providers, or their failure to perform
6. ___ Adverse tax opinions or events affecting the tax-exempt status of the security
7. ___ Modifications to rights of securities holders
8. ___ Bond calls
9. ___ Defeasances
10. ___ Release, substitution, or sale of property securing repayment of the security
11. ___ Rating charges
12. ___ Failure to provide annual financial information as required
13. ___ Other material event notice (specify)
14. ___ Financial information: Please check all appropriate boxes:
   ☐ CAFR (a) ☐ includes ☐ does not include Annual Financial Information
   (b) audited? Yes ☐ No ☐
   ☐ Annual Financial Information: Audited: Yes ☐ No ☐
   ☐ Operating Data
   Fiscal Period Covered: __________________________

*Financial Information should not be filed with the MSRB.
I hereby represent that I am authorized by the Issuer and/or Other Obligated Person as an agent of either to distribute this information publicly:

Signature:__________________________________________________________

Name:__________________________________ Title:____________________

Employer:________________________________________________________

Address:________________________________________________________________

City, State, Zip Code:________________________________________________

Voice Telephone Number ( ):__________________________________________

Please print the material event notice attached to this cover sheet in 10-point type or larger.

The cover sheet and notice may be faxed to the MSRB at (703) 797-6700. Contact the MSRB at (703) 797-6600 with questions regarding this form or the dissemination of this notice.
APPENDIX C

NOTICE TO REPOSITORIES OF FAILURE TO FILE QUARTERLY REPORT

Name of Obligated Person:

Name of Related Bonds:

Date of Issuance:

NOTICE IS HEREBY GIVEN that the above-named Obligated Person has not provided a Quarterly Report with respect to the above-named Bonds as of __________, ____, which is the date as of which the Quarterly Report is required by the Disclosure Dissemination Agent Agreement dated as of __________, ____ to be provided. The Obligated Person anticipates that the Quarterly Report will be filed by _____________________________.

Dated: ____________________________

[DISSEMINATION AGENT]

By ____________________________

cc: Obligated Group Representative
    Trustee
APPENDIX F

FORM OF QUALIFIED INSTITUTIONAL BUYER CERTIFICATION
APPENDIX F

FORM OF QUALIFIED INVESTOR LETTER

Bucks County Industrial Development Authority
Two East Court Street
Doylestown, PA  18901

Bank of New York, N.A.
385 Rifle Camp Road
West Patterson, NJ  07424

PNC Capital Markets
1600 Market Street, 21st Floor
Philadelphia, PA  19103

________, 2007

Bucks County Industrial Development Authority
Revenue Bonds
(School Lane Charter School Project)
Series of 2007A

Revenue Bonds
(School Lane Charter School Project)
Series of 2007B (Taxable)

Ladies and Gentlemen:

On the date hereof, in connection with its purchase of a portion of the above-captioned bonds (the “Series 2007 Bonds”) issued pursuant to the Loan and Trust Agreement dated as of ______, 2007, by and between the Bucks County Industrial Development Authority (the “Issuer”), School Lane Charter School Foundation and Bank of New York, as Trustee, the undersigned does hereby certify as follows:

(a) The undersigned is either a “qualified institutional buyer” within the meaning of Rule 144A promulgated under the Securities Act of 1933, as amended (the “Securities Act”), or an “accredited investor” within the meaning of Rule 501 of Regulation D promulgated under the Securities Act.

(b) The undersigned has received and read the draft of the Official Statement with respect to the Bonds and all other information it deems necessary to make an investment decision with respect to the Series 2007 Bonds.

(c) The undersigned is purchasing the Series 2007 Bonds for investment and has no present intention to resell the Series 2007 Bonds. Notwithstanding such intent, the undersigned will not be prohibited in the future from reselling the Series 2007 Bonds.

(d) The undersigned is duly and legally authorized to purchase the Series 2007 Bonds.

The undersigned acknowledges that the Issuer will approve the issuance of these bonds at a date subsequent to signing of this letter. This letter and the statements contained herein are for your benefit.

Investor ________________________________

By ________________________________
Name: ________________________________
Title: ________________________________