

**Supplement dated December 15, 2020 to
Limited Offering Memorandum
dated November 19, 2020**

\$52,405,000

**PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT
CHARTER SCHOOL REVENUE BONDS
(PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL PROJECT)
SERIES 2020**

This Supplement dated December 15, 2020 to Limited Offering Memorandum dated November 19, 2020 (this "Supplement") supplements the Limited Offering Memorandum dated November 19, 2020 (the "Original LOM") relating to the captioned bonds, to (i) reflect a revised date of issuance and delivery and dated date of the Series 2020 Bonds of December 16, 2020, (ii) reflect a revised effective date of the Leases and Mortgages and Closing Date of December 16, 2020, (iii) state that, notwithstanding the foregoing revisions, interest accrues on the Series 2020 Bonds from December 11, 2020, (iv) state that the Refunded Bonds will be defeased on the Closing Date and redeemed in full as soon as practicable thereafter, which redemption in full is expected to occur on or about January 15, 2021, as described below, and (v) amend and restate the estimated sources and uses of funds to reflect an equity contribution of DeMedici to be made in connection with the defeasance of the Refunded Bonds.

Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Original LOM.

Delivery Date and Dated Date of Series 2020 Bonds; Effective Date of Documents; Accrual of Interest

The Series 2020 Bonds will be issued and delivered on and dated December 16, 2020. The Closing Date and the effective date of the Leases and Mortgages will be December 16, 2020. Notwithstanding the foregoing revisions, interest will accrue on the Series 2020 Bonds from December 11, 2020.

Defeasance of the Refunded Bonds

A portion of the proceeds of the Series 2020 Bonds, together with a \$325,305.35 portion of a total equity contribution of DeMedici in the amount of \$337,055.35 and certain funds released from the loan and trust agreement for the Refunded Bonds (collectively, the "Defeasance Funds"), will be used to finance the defeasance of the Refunded Bonds to the extent the Borrowers are unable to purchase the Refunded Bonds in lieu of redemption.

The Defeasance Funds will be deposited on the Closing Date with the trustee for the Refunded Bonds and held uninvested, which Defeasance Funds will be sufficient to pay the principal of and premium, if any, and interest on the Refunded Bonds through January 15, 2021, the date on which the Refunded Bonds will be called for redemption. Upon deposit of the Defeasance Funds, the Refunded Bonds will be defeased and no longer outstanding. The Defeasance Funds will be applied to pay the principal of and premium, if any, and interest on the Refunded Bonds, and will not be available to pay any principal of or premium, if any, or interest on the Series 2020 Bonds.

Concurrently with the issuance of the Series 2020 Bonds, Causey Demgen & Moore P.C. (the "Verification Agent") will deliver a verification report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the arithmetical accuracy of certain computations relating to the Defeasance Funds and the forecasted payments of principal, interest and premium to pay the Refunded Bonds through their redemption date. The Verification Agent will restrict its procedures to examining the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations are based, and the Verification Agent will not express any opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcomes.

Estimated Sources and Uses of Funds

To reflect the equity contribution of DeMedici in connection with the defeasance of the Refunded Bonds, the text and table appearing under the heading "ESTIMATED SOURCES AND USES OF FUNDS" in the Original LOM is hereby amended and restated in its entirety as follows:

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the Series 2020 Bonds and the Project.

	Total
Sources	
Par Amount of Series 2020 Bonds	\$52,405,000.00
Plus Original Issue Premium	6,102,405.45
Refunded Bond Fund Deposits	5,707,310.67
Equity Contribution of DeMedici	337,055.35
	\$64,551,771.47
Uses	
Project Fund (Acquisition)	\$6,147,211.38
Project Fund (Renovation Project)	1,500,000.00
Refund Refunded Bonds	52,227,064.58
Debt Service Reserve Fund	3,381,500.00
Costs of Issuance*	1,295,995.51
	\$64,551,771.47

* Includes underwriting discount, legal fees, Bond Trustee's fee, Master Trustee's fee, Authority's fee, rating agency fee, title insurance, recording fees, printing expenses and other miscellaneous costs and expenses related to the issuance and sale of the Series 2020 Bonds.

Substantially Final Form of Certain Financing Documents; Proposed Form of Bond Counsel Opinion; Substantially Final Form of Continuing Disclosure Agreement

The forms of the Indenture, the Loan Agreement, the DeMedici Lease, the Master Indenture, the DeMedici Mortgage, and the DeMedici SNDA attached to the Original LOM as APPENDIX E – "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS," the form of the Bond Counsel opinion attached to the Original LOM as APPENDIX F – "PROPOSED FORM OF BOND COUNSEL OPINION," and the form of the Continuing Disclosure Agreement attached to the Original LOM as APPENDIX G – "SUBSTANTIALLY FINAL FORM OF CONTINUING DISCLOSURE AGREEMENT" are hereby revised to reflect the changes described under the headings "Delivery Date and Dated Date of Series 2020 Bonds; Effective Date of Documents; Accrual of Interest," "Defeasance of the Refunded Bonds," and "Estimated Sources and Uses of Funds."

The information contained in this Supplement should be read in conjunction with the information contained in the Original LOM, except for the information described herein, which supersedes the corresponding information contained in the Original LOM.

In the opinion of Ballard Spahr LLP, Bond Counsel, interest on the Series 2020 Bonds is excludable from gross income for purposes of federal income tax, assuming continuing compliance with the requirements of the federal tax law. Interest on the Series 2020 Bonds is not an item of tax preference for purposes of federal alternative minimum tax. Bond Counsel is also of the opinion that the interest on the Series 2020 Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of delivery of the Series 2020 Bonds. See “TAX MATTERS” herein.



\$52,405,000
PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT
CHARTER SCHOOL REVENUE BONDS
(PHILADELPHIA PERFORMING ARTS: A STRING THEORY
CHARTER SCHOOL PROJECT) SERIES 2020

Dated: Date of Delivery

Due: as shown on page (i) hereof

The Philadelphia Authority for Industrial Development (the “Authority”), a public instrumentality of the Commonwealth of Pennsylvania (the “Commonwealth”) and a body corporate and politic, created by the City of Philadelphia (the “City”), is issuing its \$52,405,000 Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project) Series 2020 (the “Series 2020 Bonds”), pursuant to an Indenture of Trust dated as of December 1, 2020 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Bond Trustee”). The Series 2020 Bonds will be dated their date of delivery, will be issued initially in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof. The Series 2020 Bonds will mature on the dates and in the amounts set forth on page (i) hereof. The Series 2020 Bonds will accrue interest payable semi-annually on June 15 and December 15 each year, commencing June 15, 2021, until maturity or earlier redemption. Interest on the Series 2020 Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Capitalized terms used but not defined on this cover page shall have the meanings set forth in this Limited Offering Memorandum or in APPENDIX E – “SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS.”

The Series 2020 Bonds are subject to optional, extraordinary, mandatory redemption and mandatory sinking fund redemption as described herein. See “THE SERIES 2020 BONDS – Prior Redemption.”

The Series 2020 Bonds will be issued as registered bonds in book-entry only form in the name of Cede & Co., as nominee of The Depository Trust Company, which will act as securities depository for the Series 2020 Bonds. Purchases of beneficial interests in the Series 2020 Bonds will be made in book-entry only form and purchasers will not receive physical certificates representing the ownership interest in the Series 2020 Bonds purchased by them. See APPENDIX H - “BOOK-ENTRY ONLY SYSTEM.”

The proceeds of the Series 2020 Bonds will be used to fund a loan (the “Loan”) from the Authority to DeMedici Corporation (“DeMedici”) and DeMedici Corporation II (“DeMedici II”) and, together with DeMedici, the “Borrowers” and each, a “Borrower”), each a Pennsylvania nonprofit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”) pursuant to the Loan Agreement dated as of December 1, 2020 (the “Agreement”), by and between the Authority and the Borrowers in order to: (a) refund the Authority’s Revenue Bonds (Philadelphia Performing Arts Charter School Project), Series of 2013, issued in the original aggregate principal amount of \$55,500,000 and outstanding in the principal amount of \$51,940,000 (the “Refunded Bonds”) the proceeds of which were used to finance school facilities located at (i) 2600-30 South Broad Street, Philadelphia, PA; (ii) 2407 Broad Street, Philadelphia, PA, 1338-42 Ritner Street, Philadelphia, PA and 2419-37 South Broad Street, Philadelphia, PA; and (iii) 1600 Vine Street, Philadelphia, PA (collectively, the “2013 Facilities”); (b) finance the payment of, or reimbursement to the Borrowers for, the acquisition, construction, renovation and equipping of school facilities and other buildings located at 2632 South Broad Street, Philadelphia, PA (the “2632 Broad Street Facility” and, together with the 2013 Facilities, the “Facilities” and individually, a “Facility”) to expand capacity for the operations of Philadelphia Performing Arts: A String Theory Charter School (the “Corporation”), a Pennsylvania nonprofit corporation and an organization described in Section 501(c)(3) of the Code, for use in its school operations; (c) fund a debt service reserve fund for the Series 2020 Bonds; and (d) fund all or a portion of the costs of issuance of the Series 2020 Bonds (collectively, the “Project”).

The loan payments required by the Borrowers under the Agreement constitute general obligations of the Borrowers and are secured by, among other things, the Mortgages. The Facility will be leased by the Borrowers to the Corporation pursuant to the Leases.

The Series 2020 Bonds are to be issued pursuant to the Indenture and, together with any Additional Bonds that may be issued thereunder (collectively, the “Bonds”), will be equally and ratably secured thereby. The Series 2020 Bonds constitute special, limited obligations of the Authority and are payable solely from the Trust Estate described in the following sentence. The Bonds are secured by a pledge under the Indenture of (i) the rights and interests of the Authority under the Agreement (except certain unassigned rights (the “Unassigned Rights”)); (ii) the 2020 Note; (iii) all Funds created in the Indenture (other than the Rebate Fund), except for moneys or obligations deposited with or paid to the Bond Trustee for the payment or redemption of Bonds which are no longer deemed to be Outstanding thereunder, and all trust accounts containing all insurance and condemnation proceeds and all Revenues payable to the Bond Trustee by or for the account of the Authority pursuant to the Agreement and the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture; and (iv) any and all other interests in real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind specifically mortgaged, pledged or hypothecated, as and for additional security under the Indenture by the Authority or by anyone on its behalf or with its written consent in favor of the Bond Trustee, which is authorized by the Indenture to receive any and all such property at any and all times and to hold and apply the same, subject to the terms thereof (collectively, the “Trust Estate”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS.”

INVESTMENT IN THE SERIES 2020 BONDS INVOLVES A SIGNIFICANT DEGREE OF RISK AND IS SPECULATIVE IN NATURE AS DESCRIBED UNDER “RISK FACTORS” HEREIN AND UNDER OTHER SECTIONS OF THIS LIMITED OFFERING MEMORANDUM.

THE SERIES 2020 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY, AND THE SERIES 2020 BONDS AND THE INTEREST THEREON AND REDEMPTION PREMIUM, IF ANY, SHALL NOT BE DEEMED TO CONSTITUTE OR CREATE AN INDEBTEDNESS, LIABILITY OR OBLIGATION OF THE AUTHORITY, THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF WITHIN THE MEANING OF ANY COMMONWEALTH CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION OR A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY SUCH POLITICAL SUBDIVISION OR AGENCY. THE SERIES 2020 BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM AND SECURED BY THE TRUST ESTATE, ALL AS DESCRIBED IN AND SUBJECT TO LIMITATIONS SET FORTH IN THE INDENTURE, FOR THE EQUAL AND RATABLE BENEFIT OF THE HOLDERS, FROM TIME TO TIME, OF THE SERIES 2020 BONDS.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read this entire Limited Offering Memorandum to obtain information essential to the making of an informed investment decision, and should give particular attention to the material under the caption “RISK FACTORS.”

The Series 2020 Bonds offered by this Limited Offering Memorandum are offered when, as and if issued and accepted by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and subject to the approval of legality by Ballard Spahr LLP, Cherry Hill, New Jersey, Bond Counsel. Certain legal matters will be passed upon by the Authority by its counsel, Turner Law, P.C., Philadelphia, Pennsylvania, for the Borrowers and the Corporation by their counsel, Sand & Sidel, P.C., Philadelphia, Pennsylvania, and for the Underwriter by its counsel, Ice Miller LLP, Columbus, Ohio. It is expected that delivery of the Series 2020 Bonds in definitive form will be made against payment therefor through the facilities of DTC on or about December 11, 2020.





1600 Vine Street



2600 Broad Street

MATURITY SCHEDULE

\$52,405,000

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Serial Bonds

Maturity Date (June 15)	Amount (\$)	Rate (%)	Yield (%)	Price (%)	CUSIP*
2021	400,000	4.0	1.790	101.119	71780CAP5
2022	795,000	4.0	1.850	103.189	71780CAQ3
2023	825,000	4.0	1.910	105.100	71780CAR1
2024	860,000	5.0	1.970	110.230	71780CAS9
2025	905,000	5.0	2.070	112.557	71780CAT7
2026	950,000	5.0	2.230	114.289	71780CAU4
2027	995,000	5.0	2.390	115.651	71780CAV2
2028	1,045,000	5.0	2.520	116.874	71780CAW0
2029	1,100,000	5.0	2.680 ^C	115.688	71780CAX8
2030	1,155,000	5.0	2.770 ^C	115.028	71780CAY6

Term Bonds

Maturity Date (June 15)	Amount (\$)	Rate (%)	Yield (%)	Price (%)	CUSIP*
2040	15,215,000	5.0	3.110 ^C	112.572	71780CAZ3
2050	28,160,000	5.0	3.330 ^C	111.016	71780CBA7

^C Calculated to first optional redemption date of June 15, 2028.

* Copyright 2020, American Bankers Association. CUSIP data herein are provided by CUSIP Global Services managed by S&P Global Market Intelligence. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Series 2020 Bonds and none of the Authority, the Borrowers, the Corporation or the Underwriter makes any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2020 Bonds as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2020 Bonds.

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REGARDING USE OF THIS LIMITED OFFERING MEMORANDUM

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2020 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Borrowers, the Corporation or the Underwriter to give any information or to make any representation, other than the information contained in this Limited Offering Memorandum, in connection with the offering of the Series 2020 Bonds, and, if given or made, such information or representation must not be relied upon as having been authorized by the Authority, the Borrowers, the Corporation or the Underwriter. The information in this Limited Offering Memorandum is subject to change without notice, and neither the delivery of this Limited Offering Memorandum nor any sale hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Borrowers, the Corporation or the Underwriter since the date hereof. This Limited Offering Memorandum does not constitute an offer to sell or solicitation of any offer to buy in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. The Underwriter has reviewed the information in this Limited Offering Memorandum in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

Certain statements included or incorporated by reference in this Limited Offering Memorandum are "forward-looking statements" of the type described in the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. See "INTRODUCTION – Forward-Looking Statements" herein.

THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM THE AUTHORITY, THE CORPORATION, THE BORROWERS, THE DEPOSITORY TRUST COMPANY ("DTC") AND OTHER SOURCES THAT ARE BELIEVED TO BE RELIABLE, BUT IT IS NOT GUARANTEED AS TO ACCURACY AND COMPLETENESS, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION BY THE UNDERWRITER. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS LIMITED OFFERING MEMORANDUM NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE THE IMPLICATION THAT THERE HAS BEEN NO CHANGE IN ANY OF THE INFORMATION SET FORTH HEREIN SINCE THE DATE HEREOF.

THE AUTHORITY ASSUMES NO RESPONSIBILITY FOR THIS LIMITED OFFERING MEMORANDUM AND HAS NOT REVIEWED OR UNDERTAKEN TO VERIFY ANY INFORMATION CONTAINED HEREIN. OTHER THAN WITH RESPECT TO INFORMATION CONCERNING THE AUTHORITY CONTAINED UNDER THE CAPTIONS "INTRODUCTION," "THE AUTHORITY" AND "LEGAL MATTERS – PENDING AND THREATENED LITIGATION – NO PROCEEDINGS AGAINST THE AUTHORITY" NONE OF THE INFORMATION IN THIS LIMITED OFFERING MEMORANDUM HAS BEEN SUPPLIED OR VERIFIED BY THE AUTHORITY AND THE AUTHORITY MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

Neither the Bond Trustee nor the Master Trustee has participated in the preparation of this Limited Offering Memorandum and thus neither makes any representation as to the accuracy or completeness of any information contained herein and has no responsibility or liability therefor. The obligations and duties of the Bond Trustee and the Master Trustee are as described in the Indenture and the Master Indenture. The Bond Trustee and the Master Trustee have not evaluated the risks, benefits or propriety of any investment in the Bonds, and make no representation, and have reached no conclusions, regarding the validity of the Series 2020 Bonds, the security therefor, or the

adequacy of the provisions for payment thereof. The Bond Trustee and the Master Trustee will rely upon the opinions of Bond Counsel, counsel to the Authority, counsel to the Borrowers, and counsel to the Corporation, among others, for the validity and enforceability of the Series 2020 Bonds and the other financing documents as well as with respect to the other matters set out in those opinions. Furthermore, the Bond Trustee and the Master Trustee has no oversight responsibility, and is not accountable, for the use or application of the proceeds of Series 2020 Bonds by the Authority or the Borrowers or for the use or application of any money paid over by the Bond Trustee or the Master Trustee in accordance with the provisions of the Indenture and the Master Indenture.

THE SERIES 2020 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2020 BONDS IN ACCORDANCE WITH THE APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES IN WHICH THE SERIES 2020 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES, NOR THE FEDERAL GOVERNMENT NOR ANY OF THEIR RESPECTIVE AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2020 BONDS OR THE ACCURACY OR COMPLETENESS OF THIS LIMITED OFFERING MEMORANDUM.

THE SERIES 2020 BONDS ARE TO BE PURCHASED FOR INVESTMENT ONLY. THE SERIES 2020 BONDS MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLER OF ANY SERIES 2020 BONDS MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER OR SECTION 501(A) OF REGULATION D PROMULGATED UNDER THE SECURITIES ACT. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

* * *

SUMMARY STATEMENT

The following introductory material is only a brief description of, and is qualified by, the more complete information contained throughout this Limited Offering Memorandum. A full review should be made of the entire Limited Offering Memorandum and the documents summarized or described herein. The offering of the Series 2020 Bonds to potential investors is made only by means of the entire Limited Offering Memorandum. No person is authorized to detach this Summary Statement from this Limited Offering Memorandum or otherwise use it without the entire Limited Offering Memorandum. For the definitions of certain words and terms used in this Summary Statement, see the Limited Offering Memorandum or APPENDIX E – "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS."

Purpose of the Issue.....The purpose of this Limited Offering Memorandum is to provide information in connection with the offer and sale of the Philadelphia Authority for Industrial Development \$52,405,000 Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project) Series 2020 (the "Series 2020 Bonds").

The Series 2020 Bonds will be issued pursuant to an Indenture of Trust dated as of December 1, 2020 (the "Indenture"), by and between the Philadelphia Authority for Industrial Development (the "Authority"), a public instrumentality of the Commonwealth of Pennsylvania (the "Commonwealth") and a body corporate and politic, created by the City of Philadelphia (the "City"), and U.S. Bank National Association, as trustee (the "Bond Trustee").

The proceeds of the Series 2020 Bonds will be used to fund a loan (the "Loan") from the Authority to DeMedici Corporation ("DeMedici") and DeMedici Corporation II ("DeMedici II" and, together with DeMedici, the "Borrowers" and each, a "Borrower"), each a Pennsylvania nonprofit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") pursuant to the Loan Agreement dated as of December 1, 2020 (the "Agreement"), by and between the Authority and the Borrowers in order to: (a) refund the Authority's Revenue Bonds (Philadelphia Performing Arts Charter School Project), Series of 2013, issued in the original aggregate principal amount of \$55,500,000 and outstanding in the principal amount of \$51,940,000 (the "Refunded Bonds") the proceeds of which were used to finance school facilities located at (i) 2600-30 South Broad Street, Philadelphia, PA (the "2630 Broad Street Facility"); (ii) 2407 Broad Street, Philadelphia, PA, 1338-42 Ritner Street, Philadelphia, PA and 2419-37 South Broad Street, Philadelphia, PA; and (iii) 1600 Vine Street, Philadelphia, PA (collectively, the "2013 Facilities"); (b) finance the payment of, or reimbursement to the Borrowers for, the acquisition, construction, renovation and equipping of school facilities and other buildings located at 2632 South Broad Street, Philadelphia, PA (the "2632 Broad Street Facility" and, together with the 2013 Facilities, the "Facilities" and individually, a "Facility") to expand capacity for the operations of Philadelphia Performing Arts: A String Theory Charter School (the "Corporation"), a Pennsylvania nonprofit corporation and an organization described in Section 501(c)(3) of the Code, for use in its school operations; (c) fund a debt service reserve fund for the Series 2020 Bonds; and (d) fund all or a portion of the costs of issuance of the Series 2020 Bonds (collectively, the "Project").

The Authority.....The Authority is a public instrumentality of the Commonwealth and a body corporate and politic, created by the City, pursuant to the Act, for the purpose of acquiring, holding, constructing, improving, maintaining, operating, owning, financing and leasing, either in the capacity of lessor

or lessee, industrial, commercial or specialized development projects, all as permitted under the Act. The Series 2020 Bonds are issued in conformity with the Constitution and laws of the Commonwealth, and pursuant to an authorizing resolution (the "Bond Resolution") adopted by the Authority at a meeting held on August 18, 2020, and pursuant to the terms of the Indenture.

The BorrowersEach of the Borrowers is a Pennsylvania nonprofit corporation and an organization described in Section 501(c)(3) of the Code. Each Borrower operates exclusively for charitable and educational purposes including making distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Code. This includes providing facilities, land, and improvements for the benefit of the Corporation.

The Corporation does not exercise corporate control over DeMedici or DeMedici II, but there is certain common membership across the boards of directors of the Corporation, DeMedici, and DeMedici II. DeMedici and DeMedici II are legally separate from the Corporation, but are component units of the Corporation for purposes of financial reporting. See APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION FOR THE FISCAL YEARS ENDED JUNE 30, 2017, 2018, AND 2019."

The Corporation and the SchoolThe Corporation is a Pennsylvania nonprofit corporation, an organization described in Section 501(c)(3) of the Code, and a charter school under 24 PS §17-1701-A et seq. (the "Charter School Law"). The Corporation was incorporated in 2000 and operates as the public charter school known as Philadelphia Performing Arts: A String Theory Charter School (the "School").

The Corporation received its initial charter from the School District of Philadelphia ("SDP") on August 14, 2000, effective for a four year term. The Corporation has received three charter renewals since its first approval: in 2004, 2009, and 2014.

SDP recommended approval of the School's charter renewal in 2019, but negotiations of a new charter contract between SDP and the School are currently ongoing. During negotiations, the School remains a public charter school in good standing under Commonwealth law and the Commonwealth of Pennsylvania Charter dated as of August 21, 2014 (the "Charter") between SDP and the Corporation remains in full force and effect. Under Commonwealth law, the Charter remains in effect until a new Charter is approved and executed by both the School and SDP.

The Closing Date Transactions

and the LeasesThe Corporation currently leases the 2630 Broad Street Facility from DeMedici and prior to the date of issuance of the Series 2020 Bonds (the "Closing Date"), DeMedici has used its own equity, for which it will be reimbursed using a portion of the proceeds of the Series 2020 Bonds, to acquire the 2632 Broad Street Facility from an unrelated third party (the "Seller") for a purchase price of \$6,000,000, the Corporation's existing lease of the 2630 Broad Street Facility will terminate and the Borrowers and, on the Closing Date, the Corporation will enter into (i) the Lease Agreement, dated as of December 1, 2020 (the "DeMedici Lease"), by and between DeMedici, as landlord, and the Corporation, as tenant, for the lease of the DeMedici Facility and (ii) the Lease Agreement dated as of December 1, 2020 (the "DeMedici II Lease" and, together with the

DeMedici Lease, the "Leases" and individually, a "Lease"), by and between DeMedici II, as landlord, and the Corporation, as tenant for the DeMedici II Facility. The Leases provide that the payment of Base Rent (as defined in the Leases) by the Corporation to the Master Trustee (for the account of the Borrowers) on aggregate will be in an amount sufficient to pay the debt service on the 2020 Note.

In connection with the acquisition of the 2632 Broad Street Facility by DeMedici, (i) DeMedici entered into an Assignment and Assumption of Leases with the Seller (the "Assignment") pursuant to which the Seller assigned and DeMedici assumed a Standard Office Lease Agreement, as amended (collectively, the "Tenant Lease"), by and between the Seller and an unrelated third party physical therapy provider ("Tenant"), under which Tenant is currently a holdover month-to-month tenant and (ii) Tenant delivered a Tenant Estoppel Certificate (the "Tenant Estoppel"), to the Master Trustee. The Tenant is expected to vacate the 2632 Broad Street Facility no later than one year after the Closing Date.

After the Closing Date, DeMedici is expected to enter into a contract for the renovation of the 2632 Broad Street Facility, to consist of basement, first floor, and second floor renovation to add 10 classrooms, seven studio spaces, and four offices and to update electrical, IT, and HVAC (the "Renovation Project"), expected to cost approximately \$1,500,000, which amount is expected to be paid from a portion of proceeds of the Series 2020 Bonds.

Limited Obligations.....THE SERIES 2020 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY, AND THE SERIES 2020 BONDS AND THE INTEREST THEREON AND REDEMPTION PREMIUM, IF ANY, SHALL NOT BE DEEMED TO CONSTITUTE OR CREATE AN INDEBTEDNESS, LIABILITY OR OBLIGATION OF THE AUTHORITY, THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF WITHIN THE MEANING OF ANY COMMONWEALTH CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION OR A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY SUCH POLITICAL SUBDIVISION OR AGENCY. THE SERIES 2020 BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM AND SECURED BY THE TRUST ESTATE, ALL AS DESCRIBED IN AND SUBJECT TO LIMITATIONS SET FORTH IN THE INDENTURE, FOR THE EQUAL AND RATABLE BENEFIT OF THE HOLDERS, FROM TIME TO TIME, OF THE SERIES 2020 BONDS.

Registration and DenominationsThe Series 2020 Bonds will be dated their date of delivery, will be issued initially in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof. The Series 2020 Bonds will be issued as registered bonds in book-entry only form in the name of Cede & Co., as nominee of The Depository Trust Company, which will act as securities depository for the Series 2020 Bonds. Purchases of beneficial interests in the Series 2020 Bonds will be made in book-entry only form and purchasers will not receive physical certificates representing the ownership interest in the Series 2020 Bonds purchased by them. See APPENDIX H - "BOOK-ENTRY ONLY SYSTEM."

Payment ProvisionsThe Series 2020 Bonds will mature on the dates and in the amounts set forth on page (i) hereof. The Series 2020 Bonds will accrue interest payable semi-annually on June 15 and December 15 each year,

commencing June 15, 2021, until maturity or earlier redemption. Interest on the Series 2020 Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

RedemptionThe Series 2020 Bonds are subject to optional, extraordinary, mandatory redemption and mandatory sinking fund redemption as described herein. See "THE SERIES 2020 BONDS – Prior Redemption."

Trust EstateThe Series 2020 Bonds are to be issued pursuant to the Indenture and, together with any Additional Bonds that may be issued thereunder (collectively, the "Bonds"), will be equally and ratably secured thereby. The Series 2020 Bonds constitute special, limited obligations of the Authority and are payable solely from the Trust Estate described in the following sentence. The Bonds are secured by a pledge under the Indenture of (i) the rights and interests of the Authority under the Agreement (except certain unassigned rights (the "Unassigned Rights")); (ii) the 2020 Note; (iii) all Funds created in the Indenture (other than the Rebate Fund), except for moneys or obligations deposited with or paid to the Bond Trustee for the payment or redemption of Bonds which are no longer deemed to be Outstanding thereunder, and all trust accounts containing all insurance and condemnation proceeds and all Revenues payable to the Bond Trustee by or for the account of the Authority pursuant to the Agreement and the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture; and (iv) any and all other interests in real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind specifically mortgaged, pledged or hypothecated, as and for additional security under the Indenture by the Authority or by anyone on its behalf or with its written consent in favor of the Bond Trustee, which is authorized by the Indenture to receive any and all such property at any and all times and to hold and apply the same, subject to the terms thereof (collectively, the "Trust Estate").

Security for the ObligationsAs security for their obligation to make payments required under the Agreement, DeMedici, as "Obligated Group Representative" of the Obligated Group (as defined below), has issued a promissory note (the "2020 Note") under the terms of and pursuant to a Master Trust Indenture dated as of December 1, 2020 (the "Original Master Indenture"), among DeMedici, DeMedici II (together, the "Obligated Group" and each, a "Member") and U.S. Bank National Association, as master trustee (the "Master Trustee"), as supplemented by a Supplemental Master Trust Indenture No. 1 dated as of December 1, 2020 (the "Supplemental Master Indenture" and, together with the Original Master Indenture, the "Master Indenture"), between the Obligated Group Representative and the Master Trustee.

Pursuant to the Master Indenture, to secure the 2020 Note and each other Obligation issued pursuant to the Master Indenture (collectively, the "Obligations"), each Member therein sells, assigns, transfers, sets over and pledges unto the Master Trustee and grants a security interest in all of the right, title and interest of each respective Member in and to all of the Pledged Revenues, any rights to receive such Pledged Revenues, and in the Revenue Fund established thereunder, all moneys and investments therein and all income derived from the investment thereof, to have and to hold in trust for the benefit of the Holders from time to time of all Obligations issued and Outstanding thereunder, without preference or

priority of any one Obligation over any other Obligation except as otherwise expressly provided therein.

In order to further secure the Obligations, each Borrower will, as applicable, (a) grant a mortgage lien on and security interest in its interest in its respective Facility to the Master Trustee, for the benefit of the holders of the 2020 Note, pursuant to (i) the Open-End Mortgage, Assignment of Leases and Income, Security Agreement and Fixture Filing, dated as of December 1, 2020, but effective the Closing Date, from DeMedici in favor of the Master Trustee (the "DeMedici Mortgage") and (ii) the Open-End Mortgage, Assignment of Leases and Income, Security Agreement and Fixture Filing, dated as of December 1, 2020, but effective the Closing Date, from DeMedici II in favor of the Master Trustee (the "DeMedici II Mortgage" and, together with the DeMedici Mortgage, the "Mortgages" and individually, a "Mortgage") and (b) assign its interest in its respective Lease (as defined below) to the Master Trustee pursuant to its respective Mortgage.

The Corporation, each Borrower, and the Master Trustee will also enter into a Subordination, Non-Disturbance and Attornment Agreement dated as of December 1, 2020 (the "Subordination Agreements" and each, a "Subordination Agreement") establishing, among other things, that the lien of the applicable Mortgage is superior to the rights of the Corporation under the applicable Lease. Pursuant to the Subordination Agreements, the Master Trustee, each Borrower, and the Corporation agree, among other things, that (i) the lien of the applicable Mortgage is at all times superior to the rights of the Corporation under the applicable Lease, (ii) the Master Trustee and the applicable Borrower will not disturb the Corporation and its use of the Facilities under the terms of the applicable Lease (even during a foreclosure event) unless the Corporation is in default under the applicable Lease, (iii) if a transfer of the Facilities occurs, then the purchaser/transferee taking possession of the Facilities will attorn to the right of the Corporation under the terms of the applicable Lease (for the balance of the term of such Lease), and (iv) the Corporation will not take any action to assign, cancel, or terminate the Corporation's obligations under the applicable Lease, except as expressly permitted. See APPENDIX E – "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS" for more information on the Subordination Agreements.

Bondholders' Risks.....INVESTMENT IN THE SERIES 2020 BONDS INVOLVES A SIGNIFICANT DEGREE OF RISK AND IS SPECULATIVE IN NATURE AS DESCRIBED UNDER "RISK FACTORS" HEREIN AND UNDER OTHER SECTIONS OF THIS LIMITED OFFERING MEMORANDUM.

Continuing Disclosure.....DeMedici, on its own behalf and on behalf of the Members of the Obligated Group as the Obligated Group Representative, and the Corporation will enter into and deliver a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with respect to the Series 2020 Bonds. The Continuing Disclosure Agreement is made for the benefit of the registered and beneficial owners of the Series 2020 Bonds. See APPENDIX G – "SUBSTANTIALLY FINAL FORM OF CONTINUING DISCLOSURE AGREEMENT."

Tax Status.....In the opinion of Ballard Spahr LLP, Bond Counsel, interest on the Series 2020 Bonds is excludable from gross income for purposes of

federal income tax, assuming continuing compliance with the requirements of the federal tax law. Interest on the Series 2020 Bonds is not an item of tax preference for purposes of federal alternative minimum tax. Bond Counsel is also of the opinion that the interest on the Series 2020 Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of delivery of the Series 2020 Bonds. See "TAX MATTERS" herein.

Delivery InformationThe Series 2020 Bonds offered by this Limited Offering Memorandum are offered when, as and if issued and accepted by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and subject to the approval of legality by Ballard Spahr LLP, Cherry Hill, New Jersey, Bond Counsel. Certain legal matters will be passed upon by the Authority by its counsel, Turner Law, P.C., Philadelphia, Pennsylvania, for the Borrowers and the Corporation by their counsel, Sand & Saidel, P.C., Philadelphia, Pennsylvania, and for the Underwriter by its counsel, Ice Miller LLP, Columbus, Ohio. It is expected that delivery of the Series 2020 Bonds in definitive form will be made against payment therefor through the facilities of DTC on or about December 11, 2020.

Financial InformationThe audited financial statements of the Corporation for the Fiscal Years ended June 30, 2017, 2018, and 2019, included in this Limited Offering Memorandum in APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION FOR THE FISCAL YEARS ENDED JUNE 30, 2017, 2018, AND 2019," have been audited by Zelenofske Axelrod LLC, Jamison, Pennsylvania (the "Auditor"), to the extent and for the period indicated in its reports thereon. Such financial statements have been included in reliance upon the reports of the Auditor. The Corporation is not aware of any facts that would make such financial statements misleading. These financial statements were prepared using the standards applicable to nonprofit entities. The audited financial statements included in APPENDIX B are an integral part hereof and should be read in their entirety.

Certain unaudited financial statements of the Corporation for the fiscal year ended June 30, 2020 are provided herein. Such unaudited financial statements have been prepared by Management and have not been examined or reviewed by the Auditor or any other independent certified public accountant. See APPENDIX A – "GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE BORROWERS – CERTAIN FINANCIAL INFORMATION."

The Corporation's projections of revenues and expenses for the fiscal years ended June 30, 2021 through 2025 contained in APPENDIX C – "FINANCIAL PROJECTIONS OF THE CORPORATION" (the "Projections") were prepared by Management in consultation with the Business Manager, and have not been independently verified by any other party. See "RISK FACTORS – Reliance on Projections."

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\$52,405,000
PHILADELPHIA AUTHORITY FOR INDUSTRIAL
DEVELOPMENT
CHARTER SCHOOL REVENUE BONDS
(PHILADELPHIA PERFORMING ARTS: A STRING
THEORY CHARTER SCHOOL PROJECT)
SERIES 2020

INTRODUCTION

General

The purpose of this Limited Offering Memorandum is to provide information in connection with the offer and sale of the Philadelphia Authority for Industrial Development \$52,405,000 Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project) Series 2020 (the "Series 2020 Bonds").

Capitalized terms used but not defined in the forepart of this Limited Offering Memorandum shall have the meanings set forth in APPENDIX E – "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS." The forms of the Lease, the Mortgage, and the SNDA for the DeMedici II Facility are substantially similar to the Lease, the Mortgage, and the SNDA for the DeMedici Facility, which are included in Appendix E hereto.

The Series 2020 Bonds will be issued pursuant to an Indenture of Trust dated as of December 1, 2020 (the "Indenture"), by and between the Philadelphia Authority for Industrial Development (the "Authority"), a public instrumentality of the Commonwealth of Pennsylvania (the "Commonwealth") and a body corporate and politic, created by the City of Philadelphia (the "City"), and U.S. Bank National Association, as trustee (the "Bond Trustee").

The proceeds of the Series 2020 Bonds will be used to fund a loan (the "Loan") from the Authority to DeMedici Corporation ("DeMedici") and DeMedici Corporation II ("DeMedici II" and, together with DeMedici, the "Borrowers" and each, a "Borrower"), each a Pennsylvania nonprofit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") pursuant to the Loan Agreement dated as of December 1, 2020 (the "Agreement"), by and between the Authority and the Borrowers in order to: (a) refund the Authority's Revenue Bonds (Philadelphia Performing Arts Charter School Project), Series of 2013, issued in the original aggregate principal amount of \$55,500,000 and outstanding in the principal amount of \$51,940,000 (the "Refunded Bonds") the proceeds of which were used to finance school facilities located at (i) 2600-30 South Broad Street, Philadelphia, PA (the "2630 Broad Street Facility"); (ii) 2407 Broad Street, Philadelphia, PA, 1338-42 Ritner Street, Philadelphia, PA and 2419-37 South Broad Street, Philadelphia, PA; and (iii) 1600 Vine Street, Philadelphia, PA (collectively, the "2013 Facilities"); (b) finance the payment of, or reimbursement to the Borrowers for, the acquisition, construction, renovation and equipping of school facilities and other buildings located at 2632 South Broad Street, Philadelphia, PA (the "2632 Broad Street Facility" and, together with the 2013 Facilities, the "Facilities" and individually, a "Facility") to expand capacity for the operations of Philadelphia Performing Arts: A String Theory Charter School (the "Corporation"), a Pennsylvania nonprofit corporation and an organization described in Section 501(c)(3) of the Code, for use in its school operations; (c) fund a debt service reserve fund for the Series 2020 Bonds; and (d) fund all or a portion of the costs of issuance of the Series 2020 Bonds (collectively, the "Project").

The 2630 Broad Street Facility and the 2632 Broad Street Facility are herein referred to as the "DeMedici Facility" and the land and improvements located at 1600 Vine Street, 2407 S. Broad Street, 1338-1342 Ritner Street, and 2419-2437 S. Broad Street, Philadelphia, Pennsylvania are herein referred to as the "DeMedici II Facility."

The Series 2020 Bonds are to be issued pursuant to the Indenture and, together with any Additional Bonds that may be issued thereunder (collectively, the "Bonds"), will be equally and ratably secured thereby. The Series 2020 Bonds constitute special, limited obligations of the Authority and are payable solely from the Trust Estate described in the following sentence. The Bonds are secured by a pledge under the Indenture of (i) the rights and interests of the Authority under the Agreement (except certain unassigned rights (the "Unassigned Rights")); (ii) the 2020 Note; (iii) all Funds created in the Indenture (other than the Rebate Fund), except for moneys or obligations deposited with or paid to the Bond Trustee for the payment or redemption of Bonds which are no longer deemed to be Outstanding thereunder, and all trust accounts containing all insurance and condemnation proceeds and all

Revenues payable to the Bond Trustee by or for the account of the Authority pursuant to the Agreement and the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture; and (iv) any and all other interests in real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind specifically mortgaged, pledged or hypothecated, as and for additional security under the Indenture by the Authority or by anyone on its behalf or with its written consent in favor of the Bond Trustee, which is authorized by the Indenture to receive any and all such property at any and all times and to hold and apply the same, subject to the terms thereof (collectively, the "Trust Estate").

As security for their obligation to make payments required under the Agreement, DeMedici, as "Obligated Group Representative" of the Obligated Group (as defined below), has issued a promissory note (the "2020 Note") under the terms of and pursuant to a Master Trust Indenture dated as of December 1, 2020 (the "Original Master Indenture"), among DeMedici, DeMedici II (together, the "Obligated Group" and each, a "Member") and U.S. Bank National Association, as master trustee (the "Master Trustee"), as supplemented by a Supplemental Master Trust Indenture No. 1 dated as of December 1, 2020 (the "Supplemental Master Indenture" and, together with the Original Master Indenture, the "Master Indenture"), between the Obligated Group Representative and the Master Trustee.

Pursuant to the Master Indenture, to secure the 2020 Note and each other Obligation issued pursuant to the Master Indenture (collectively, the "Obligations"), each Member therein sells, assigns, transfers, sets over and pledges unto the Master Trustee and grants a security interest in all of the right, title and interest of each respective Member in and to all of the Pledged Revenues, any rights to receive such Pledged Revenues, and in the Revenue Fund established thereunder, all moneys and investments therein and all income derived from the investment thereof, to have and to hold in trust for the benefit of the Holders from time to time of all Obligations issued and Outstanding thereunder, without preference or priority of any one Obligation over any other Obligation except as otherwise expressly provided therein.

In order to further secure the Obligations, each Borrower will, as applicable, (a) grant a mortgage lien on and security interest in its interest in its respective Facility to the Master Trustee, for the benefit of the holders of the 2020 Note, pursuant to (i) the Open-End Mortgage, Assignment of Leases and Income, Security Agreement and Fixture Filing, dated as of December 1, 2020, but effective the Closing Date, from DeMedici in favor of the Master Trustee (the "DeMedici Mortgage") and (ii) the Open-End Mortgage, Assignment of Leases and Income, Security Agreement and Fixture Filing, dated as of December 1, 2020, but effective the Closing Date, from DeMedici II in favor of the Master Trustee (the "DeMedici II Mortgage" and, together with the DeMedici Mortgage, the "Mortgages" and individually, a "Mortgage") and (b) assign its interest in its respective Lease (as defined below) to the Master Trustee pursuant to its respective Mortgage.

The Corporation currently leases the 2630 Broad Street Facility from DeMedici and prior to the date of issuance of the Series 2020 Bonds (the "Closing Date"), DeMedici has used its own equity, for which it will be reimbursed using a portion of the proceeds of the Series 2020 Bonds, to acquire the 2632 Broad Street Facility from an unrelated third party (the "Seller") for a purchase price of \$6,000,000, the Corporation's existing lease of the 2630 Broad Street Facility will terminate and the Borrowers and, on the Closing Date, the Corporation will enter into (i) the Lease Agreement, dated as of December 1, 2020 (the "DeMedici Lease"), by and between DeMedici, as landlord, and the Corporation, as tenant, for the lease of the DeMedici Facility and (ii) the Lease Agreement dated as of December 1, 2020 (the "DeMedici II Lease" and, together with the DeMedici Lease, the "Leases" and individually, a "Lease"), by and between DeMedici II, as landlord, and the Corporation, as tenant for the DeMedici II Facility. The Leases provide that the payment of Base Rent (as defined in the Leases) by the Corporation to the Master Trustee (for the account of the Borrowers) on aggregate will be in an amount sufficient to pay the debt service on the 2020 Note.

In connection with the acquisition of the 2632 Broad Street Facility by DeMedici, (i) DeMedici entered into an Assignment and Assumption of Leases with the Seller (the "Assignment") pursuant to which the Seller assigned and DeMedici assumed a Standard Office Lease Agreement, as amended (collectively, the "Tenant Lease"), by and between the Seller and an unrelated third party physical therapy provider ("Tenant"), under which Tenant is currently a holdover month-to-month tenant and (ii) Tenant delivered a Tenant Estoppel Certificate (the "Tenant Estoppel"), to the Master Trustee. The Tenant is expected to vacate the 2632 Broad Street Facility no later than one year after the Closing Date.

After the Closing Date, DeMedici is expected to enter into a contract for the renovation of the 2632 Broad Street Facility, to consist of basement, first floor, and second floor renovation to add 10 classrooms, seven studio spaces, and four offices and to update electrical, IT, and HVAC (the "Renovation Project"), expected to cost approximately \$1,500,000, which amount is expected to be paid from a portion of proceeds of the Series 2020 Bonds.

The Corporation currently operates the charter school known as Philadelphia Performing Arts: A String Theory Charter School (the "School") pursuant to the Charter (as defined herein).

The Corporation has entered into an Academic and Business Services Agreement dated June 20, 2011 (the "Academic and Business Agreement"), by and between String Theory Schools ("String Theory") and the Corporation, pursuant to which String Theory provides academic and business services to the Corporation for the School. In addition, the Corporation has entered into an Academic Services and Facilities Management Agreement dated January 20, 2014, as amended by the Amendment dated July 1, 2019 (together, the "Academic and Facilities Agreement" and, together with the Academic and Business Agreement, the "String Theory Agreements"), each by and between String Theory and the Corporation, pursuant to which String Theory provides academic and facilities management services to the Corporation for the School.

The Series 2020 Bonds are issued in conformity with the Constitution and laws of the Commonwealth, and pursuant to an authorizing resolution (the "Bond Resolution") adopted by the Authority at a meeting held on August 18, 2020, and pursuant to the terms of the Indenture. See "THE AUTHORITY" herein.

In addition, the Series 2020 Bonds are secured by the Debt Service Reserve Fund, as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS — The Indenture – Debt Service Reserve Fund" for more information.

Brief descriptions of various documents set forth in this Limited Offering Memorandum do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by the terms of each such document. Forms of the principal legal documents, including the Indenture, the Agreement, the Leases, the Master Indenture, and the Mortgages are attached hereto as APPENDIX E — "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS."

Forward-Looking Statements

This Limited Offering Memorandum contains statements relating to future results that are forward-looking statements of the type defined in the Private Litigation Reform Act of 1995. When used in this Limited Offering Memorandum, the words "estimate," "expect," "project," "intend," "anticipate," "believe," "may," "will," "continue" and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results, and that those differences could be material.

THE AUTHORITY, THE BORROWERS, THE CORPORATION, AND THE UNDERWRITER DISCLAIM ANY OBLIGATION OR UNDERTAKING TO RELEASE PUBLICLY ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENT CONTAINED HEREIN TO REFLECT ANY CHANGES IN EXPECTATIONS WITH REGARD THERETO OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

THE AUTHORITY

Organization

The Authority is a public instrumentality of the Commonwealth and a body corporate and politic, created by the City, pursuant to the Act, for the purpose of acquiring, holding, constructing, improving, maintaining, operating, owning, financing and leasing, either in the capacity of lessor or lessee, industrial, commercial or specialized development projects, all as permitted under the Act. A Certificate of Incorporation was issued to the Authority by the Secretary of the Commonwealth on December 27, 1967. An Amended Certificate of Incorporation extending the

term of existence of the Authority, was issued on September 21, 2011. The Authority's existence will continue for 50 years from September 21, 2011.

The Authority Board

The governing body of the Authority is a board consisting of five members appointed by the Mayor of the City. Members of the Authority's board serve at the pleasure of the Mayor of the City. The following persons are the present members and officers of the Authority:

<u>Name</u>	<u>Position</u>
Evelyn F. Smalls	Chairperson
David L. Hyman, Esquire	Vice Chairman
Thomas A. K. Queenan	Treasurer
Samuel V. Rhoads*	Assistant Secretary
Christina Wong	Member
Malcolm J. Ingram	Member

* Non-Member

Local and TEFRA Approvals

The issuance of the Series 2020 Bonds was approved on September 3, 2020, by James F. Kenney, Mayor of Philadelphia, in his capacity as Chief Elected Executive Officer of the City of Philadelphia to give such approval on behalf of the Authority, and based upon information provided by the Borrowers at a public hearing held on August 18, 2020, after public notice and hearing in satisfaction of and in accordance with the requirements of Section 147(f) of the Code.

Resolution; Approval

On August 18, 2020, the Board adopted the resolution approving the issuance of the Series 2020 Bonds.

Limited Obligations of Authority

THE SERIES 2020 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY, AND THE SERIES 2020 BONDS AND THE INTEREST THEREON AND REDEMPTION PREMIUM, IF ANY, SHALL NOT BE DEEMED TO CONSTITUTE OR CREATE AN INDEBTEDNESS, LIABILITY OR OBLIGATION OF THE AUTHORITY, THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF WITHIN THE MEANING OF ANY COMMONWEALTH CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION OR A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY SUCH POLITICAL SUBDIVISION OR AGENCY. THE SERIES 2020 BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM AND SECURED BY THE TRUST ESTATE, ALL AS DESCRIBED IN AND SUBJECT TO LIMITATIONS SET FORTH IN THE INDENTURE, FOR THE EQUAL AND RATABLE BENEFIT OF THE HOLDERS, FROM TIME TO TIME, OF THE SERIES 2020 BONDS.

Other Obligations

The Authority has issued, sold and delivered in the past, and expects to issue, sell and deliver in the future, obligations other than the Series 2020 Bonds, which other obligations are and will be secured by instruments separate and apart from the Indenture and the Series 2020 Bonds. The holders of such obligations of the Authority will have no claim on the security for the Series 2020 Bonds, and the owners of the Series 2020 Bonds will have no claim on the security for such other obligations issued by or of the Authority.

Limited Involvement of the Authority

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

The Authority has not participated in the preparation of or reviewed this Limited Offering Memorandum and is not responsible for any information contained herein, except for the information in this section and under the caption "LEGAL MATTERS – Pending and Threatened Litigation — No Proceedings Against the Authority" as such information applies to the Authority.

THE BORROWERS

Each of the Borrowers is a Pennsylvania nonprofit corporation and an organization described in Section 501(c)(3) of the Code. Each Borrower operates exclusively for charitable and educational purposes including making distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Code. This includes providing facilities, land, and improvements for the benefit of the Corporation.

The Corporation does not exercise corporate control over DeMedici or DeMedici II, but there is certain common membership across the boards of directors of the Corporation, DeMedici, and DeMedici II. DeMedici and DeMedici II are legally separate from the Corporation, but are component units of the Corporation for purposes of financial reporting. See APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION FOR THE FISCAL YEARS ENDED JUNE 30, 2017, 2018, AND 2019."

See APPENDIX A – "GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE BORROWERS" for more information concerning the Borrowers.

THE CORPORATION

The Corporation is a Pennsylvania nonprofit corporation, an organization described in Section 501(c)(3) of the Code, and a charter school under 24 PS §17-1701-A *et seq.* (the "Charter School Law"). The Corporation was incorporated in 2000 and operates as the public charter school known as Philadelphia Performing Arts: A String Theory Charter School (the "School").

The Corporation received its initial charter from the School District of Philadelphia ("SDP") on August 14, 2000, effective for a four year term. The Corporation has received three charter renewals since its first approval: in 2004, 2009, and 2014.

SDP recommended approval of the School's charter renewal in 2019, but negotiations of a new charter contract between SDP and the School are currently ongoing. During negotiations, the School remains a public charter school in good standing under Commonwealth law and the Commonwealth of Pennsylvania Charter dated as of August 21, 2014 (the "Charter") between SDP and the Corporation remains in full force and effect. Under Commonwealth law, the Charter remains in effect until a new Charter is approved and executed by both the School and SDP.

Over the years, the Corporation has requested enrollment cap increases in order to meet the needs of students in Philadelphia neighborhoods. The first enrollment cap increase was granted in 2010 with an enrollment increase for grades K-8 from 450 to 570 and a second enrollment cap increase was granted in 2011, to 625.

In May 2012, the School received one of the largest ever charter expansions in Philadelphia, which included an enrollment cap increase from 625 to 1,125 students in grades K-8 as well as the approval to add the high school with an enrollment of 1,400 students in grades 9-12. The total enrollment cap was therefore expanded to 2,525, which made the School the largest charter school in Philadelphia.

For the 2020-21 school year, the School serves approximately 2,641 students in grades K-12. Management of the Corporation ("Management") expects that enrollment will increase to approximately 2,772 students in grades K-12 by the 2024-25 school year as described herein.

The Corporation does not exercise corporate control over DeMedici or DeMedici II, but there is certain common membership across the boards of directors of the Corporation, DeMedici, and DeMedici II. DeMedici and DeMedici II are legally separate from the Corporation, but are component units of the Corporation for purposes of financial reporting. See APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION FOR THE FISCAL YEARS ENDED JUNE 30, 2017, 2018, AND 2019."

The School is a String Theory School as described in APPENDIX A – "GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE BORROWERS – THE CORPORATION – String Theory Schools." The Corporation has entered into an Academic and Business Services Agreement dated June 20, 2011 (the "Academic and Business Agreement"), by and between String Theory and the Corporation, pursuant to which String Theory provides academic and business services to the Corporation for the School. In addition, the Corporation has entered into an Academic Services and Facilities Management Agreement dated January 20, 2014, as amended by the Amendment dated July 1, 2019 (together, the "Academic and Facilities Agreement" and, together with the Academic and Business Agreement, the "String Theory Agreements"), each by and between String Theory and the Corporation, pursuant to which String Theory provides academic and facilities management services to the Corporation for the School.

See APPENDIX A – "GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE BORROWERS" for more information concerning the School.

THE SERIES 2020 BONDS

General

The Series 2020 Bonds will be dated their date of delivery, will be issued initially in denominations of \$100,000 and integral multiples of \$5,000 in excess thereof ("Authorized Denominations"). The Series 2020 Bonds will mature on the dates and in the amounts set forth on page (i) of this Limited Offering Memorandum, subject to redemption prior to maturity as described below, and will bear interest until paid at the rates shown on page (i) of this Limited Offering Memorandum, payable semi-annually on June 15 and December 15 of each year, commencing on June 15, 2021 (each an "Interest Payment Date").

Interest on the Series 2020 Bonds is computed on the basis of a 360-day year comprised of twelve 30-day months. Interest on the Series 2020 Bonds will be payable to the persons in whose names the Series 2020 Bonds are registered on the Series 2020 Bond register maintained by the Bond Trustee at the close of business on the first calendar day of the month containing each Interest Payment Date (the "Regular Record Date") notwithstanding any transfer or exchange of such Series 2020 Bond subsequent to such Regular Record Date and prior to such Interest Payment Date (except in the case of a default in interest which shall be paid to the persons in whose names the Series 2020 Bonds are registered on a special record date). While the Series 2020 Bonds remain in book-entry-only form (see APPENDIX H - "BOOK-ENTRY ONLY SYSTEM") payments of interest on the Series 2020 Bonds will be made by check or draft mailed on each Interest Payment Date to the registered owner thereof as of the Regular Record Date at his or her address as it last appears on the registration books of the Bond Trustee, except that the Registered Owners of at least \$1,000,000 in aggregate principal amount of Series 2020 Bonds Outstanding may, by written request received at least 10 Business Days prior to the Regular Record Date, receive payment of interest by wire transfer at the address specified in such request, which address must be in the United States of America.

Interest which is due and payable on any Interest Payment Date, but not so timely paid or duly provided, ceases to be payable to the registered owner otherwise entitled thereto as of such date. At such time as sufficient funds are available for the payment of such overdue interest, the Bond Trustee is required to establish a Special Record Date for payment of the defaulted interest. The Bond Trustee is required to mail a notice specifying each date so established to each registered owner of the Series 2020 Bonds, such notice to be mailed at least 10 days prior to the Special Record Date.

Prior Redemption

Optional Redemption. The Series 2020 Bonds are subject to redemption prior to maturity at the option of the Authority in whole or in part, on June 15, 2028, or on any date thereafter upon direction by the Borrowers and upon payment of par plus accrued interest to the date of redemption.

The Series 2020 Bonds are not subject to partial redemption pursuant to the optional redemption provisions described above if an Event of Default has occurred under the Indenture and has not been cured or otherwise waived by the Bond Trustee.

Mandatory Sinking Fund Redemption. The Series 2020 Bonds maturing June 15, 2040 are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the redemption date. Pursuant to the provisions of the Agreement, the Borrowers are required to provide funds for deposit into the Bond Principal Fund and Bond Interest Fund sufficient to redeem the following principal amount of the Series 2020 Bonds maturing June 15, 2040 plus accrued interest thereon to the redemption date:

<u>June 15 of the Year</u>	<u>Principal Amount</u>
2031	\$1,210,000
2032	1,270,000
2033	1,335,000
2034	1,400,000
2035	1,470,000
2036	1,545,000
2037	1,620,000
2038	1,705,000
2039	1,785,000
2040 [†]	1,875,000

[†]Maturity Date

The Series 2020 Bonds maturing June 15, 2050 are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the redemption date. Pursuant to the provisions of the Agreement, the Borrowers are required to provide funds for deposit into the Bond Principal Fund and Bond Interest Fund sufficient to redeem the following principal amount of the Series 2020 Bonds maturing June 15, 2050 plus accrued interest thereon to the redemption date:

<u>June 15 of the Year</u>	<u>Principal Amount</u>
2041	\$1,970,000
2042	2,070,000
2043	2,170,000
2044	2,280,000
2045	2,395,000
2046	2,515,000
2047	2,640,000
2048	2,770,000
2049	2,910,000
2050 [†]	6,440,000

[†]Maturity Date

Not more than 45 days nor less than 20 days prior to the sinking fund payment date for the Series 2020 Bonds, the Trustee is required to proceed to select for redemption (by lot in such manner as the Trustee may determine) from all Outstanding Series 2020 Bonds, a principal amount of Series 2020 Bonds equal to the aggregate principal amount of Series 2020 Bonds, redeemable with the required sinking fund payment and is required to call such Series 2020 Bonds for redemption from the sinking fund on the next June 15 and give notice of such call.

Redemption of the Series 2020 Bonds Upon Occurrence of Certain Events. The Series 2020 Bonds are subject to redemption upon the written direction of the Borrowers in whole or in part (only Net Proceeds of insurance or a condemnation award shall be used for a partial redemption of Bonds pursuant to the Indenture) on any Interest

Payment Date from and to the extent of funds on deposit under the Indenture and available for this purpose at a redemption price equal to the principal amount of each of the Series 2020 Bonds to be redeemed plus accrued interest thereon to the redemption date upon the occurrence of any of the following events:

(a) A Facility shall have been damaged or destroyed, in whole or in part, to such extent that, as expressed in a consulting architect's certificate filed with the Bond Trustee, (i) such Facility cannot reasonably be restored within a period of six consecutive months to the condition thereof immediately preceding such damage or destruction, (ii) a Borrower or its respective lessee are thereby prevented from carrying on its normal operations for a period of six consecutive months, or (iii) the cost of restoration thereof would exceed the net proceeds of insurance carried thereon pursuant to the requirements of the Master Indenture.

(b) Title to or the temporary use of, all or any substantial part of the Facility shall have been taken under the exercise of the power of eminent domain by any governmental authority or person, firm or corporation acting under governmental authority or because of a defect in title.

(c) As a result of any changes in the Constitution of the Commonwealth or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by a Borrower in good faith, the Agreement, the Master Indenture, a Lease or a Mortgage shall have become void or unenforceable or impossible of performance in accordance with the intent and purposes of the parties as expressed in the Agreement or unreasonable burdens or excessive liabilities shall have been imposed on a Borrower in respect to a Facility, including, without limitation, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Agreement. Redemption described in this paragraph (c) shall be in whole only.

Only Net Proceeds of insurance or of a condemnation award may be used for a partial redemption of the Series 2020 Bonds pursuant to paragraph (a) or (b) above.

Redemption upon a Determination of Taxability. The Series 2020 Bonds are subject to mandatory redemption as a whole at the principal amount thereof, plus accrued interest thereon to the date of redemption, plus a 3% premium, upon the occurrence of a Determination of Taxability (as defined in the Indenture, a copy of which is included in APPENDIX E — "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS"). The redemption date shall be the earliest practicable date selected by the Borrowers, after consultation with the Bond Trustee, but in no event later than six months following the Determination of Taxability.

Partial Redemption. Upon surrender of any Series 2020 Bond for redemption in part only, the Authority shall execute and the Bond Trustee shall authenticate and deliver to the Registered Owner thereof, the cost of which shall be paid by the Borrowers, a new Bond or Bonds of the same Series and maturity and interest rate and of authorized denominations, in an aggregate principal amount equal to that portion of the Series 2020 Bond not redeemed. The Borrowers shall subscribe for new CUSIP numbers, if necessary, in connection with such partial redemption of Series 2020 Bonds.

Notice of Redemption. Series 2020 Bonds shall be called for optional redemption by the Bond Trustee as provided in the Indenture upon receipt by the Bond Trustee at least 30 days prior to the redemption date of a certificate of the Borrowers specifying the series and principal amount of the Series 2020 Bonds to be called for redemption, the applicable redemption price or prices, the provision or provisions of the Indenture pursuant to which such Series 2020 Bonds are to be called for redemption, provided that such certificate shall not be required with respect to a sinking fund redemption pursuant to the Indenture and Series 2020 Bonds shall be called for redemption by the Bond Trustee pursuant to the Indenture without the necessity of any action by the Borrowers. In the case of every redemption, or in the case of any defeasance, the Bond Trustee shall cause notice of such redemption or defeasance by mailing by first-class mail a copy of the redemption notice or defeasance notice to the Registered Owners of the Series 2020 Bonds designated for redemption or defeasance in whole or in part, at their addresses as the same shall last appear upon the registration records, in each case not less than 20 days prior to the redemption date or defeasance date, provided, however, that failure to give such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption or defeasance of such Series 2020 Bonds. Any notice of optional redemption by the Bond Trustee may contain a statement that the redemption is conditioned upon the receipt by the Bond Trustee of funds on or before the date fixed for redemption sufficient to pay the redemption price of the Series 2020 Bonds so called for redemption, and that if funds are not available, such optional redemption shall be cancelled by written notice to the Registered

Owners of the Series 2020 Bonds called for redemption in the same manner as the original redemption notice was given.

Each notice of redemption shall specify the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of the Series 2020 Bonds to be redeemed, that interest accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date, interest thereon will cease to accrue. If less than all the Outstanding Bonds are to be redeemed, the notice of redemption shall specify the numbers of the Series 2020 Bonds or portions thereof to be redeemed. If less than all of the Outstanding Bonds subject to mandatory sinking fund redemption are redeemed, the Borrowers, in consultation with the Bond Trustee, shall calculate the revised sinking fund schedule based on a pro rata share of the Series 2020 Bonds then Outstanding. In connection with any redemption of Series 2020 Bonds while in a book-entry system, such redemption will be processed in accordance with the requirements of DTC.

Transfers and Exchanges

While the Series 2020 Bonds remain in book-entry-only form, transfer of ownership by Beneficial Owners may be made as described under APPENDIX H - "BOOK-ENTRY ONLY SYSTEM."

PLAN OF FINANCE

General

The proceeds of the Series 2020 Bonds will be used to fund the Loan from the Authority to the Borrowers pursuant to the Agreement in order to: (a) refund all of the Refunded Bonds; (b) finance the payment of, or reimbursement to the Borrowers for, the acquisition, construction, renovation and equipping of school facilities and other buildings located at the 2632 Broad Street Facility to expand capacity for the operations of the Corporation for use in its school operations; (c) fund a debt service reserve fund for the Series 2020 Bonds; and (d) fund all or a portion of the costs of issuance of the Series 2020 Bonds.

The Corporation currently leases the 2630 Broad Street Facility from DeMedici and prior to the Closing Date, DeMedici used its own equity, for which it will be reimbursed using a portion of the proceeds of the Series 2020 Bonds, to acquire the 2632 Broad Street Facility from the Seller for a purchase price of \$6,000,000, and, on the Closing Date, the Corporation's existing lease of the 2630 Broad Street Facility will terminate and the Borrowers and the Corporation will enter into the Leases for each respective Facility that provide that the payment of Base Rent (as defined in the Leases) by the Corporation to the Master Trustee (for the account of the Borrowers) on aggregate will be in an amount sufficient to pay the debt service on the 2020 Note.

In connection with the acquisition of the 2632 Broad Street Facility by DeMedici, (i) DeMedici entered into the Assignment, pursuant to which the Seller will assign and DeMedici will assume the Tenant Lease, under which Tenant is currently a holdover month-to-month tenant and (ii) Tenant delivered the Tenant Estoppel to the Master Trustee. The Tenant is expected to vacate the 2632 Broad Street Facility no later than one year after the Closing Date.

After the Closing Date, DeMedici is expected to enter into a contract for the renovation of the 2632 Broad Street Facility, to consist of basement, first floor, and second floor renovation to add 10 classrooms, seven studio spaces, and four offices and to update electrical, IT, and HVAC (the "Renovation Project"), expected to cost approximately \$1,500,000, which amount is expected to be paid from a portion of proceeds of the Series 2020 Bonds.

On the Closing Date, the Refunded Bonds will be redeemed in full.

See APPENDIX A – "GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE BORROWERS" for more information concerning the Project.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the Series 2020 Bonds and the Project.

	Total
Sources	
Par Amount of Series 2020 Bonds	\$52,405,000.00
Plus Original Issue Premium	6,102,405.45
Refunded Bond Fund Deposits	7,429,663.66
	<u>\$65,937,069.11</u>
Uses	
Project Fund (Acquisition)	\$6,147,211.38
Project Fund (Renovation Project)	1,507,278.01
Refund Refunded Bonds	53,624,112.22
Debt Service Reserve Fund	3,381,500.00
Costs of Issuance *	1,276,967.50
	<u>\$65,937,069.11</u>

* Includes underwriting discount, legal fees, Bond Trustee's fee, Master Trustee's fee, Authority's fee, rating agency fee, title insurance, recording fees, printing expenses and other miscellaneous costs and expenses related to the issuance and sale of the Series 2020 Bonds.

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SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS

General

THE SERIES 2020 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY, AND THE SERIES 2020 BONDS AND THE INTEREST THEREON AND REDEMPTION PREMIUM, IF ANY, SHALL NOT BE DEEMED TO CONSTITUTE OR CREATE AN INDEBTEDNESS, LIABILITY OR OBLIGATION OF THE AUTHORITY, THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF WITHIN THE MEANING OF ANY COMMONWEALTH CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION OR A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY SUCH POLITICAL SUBDIVISION OR AGENCY. THE SERIES 2020 BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM AND SECURED BY THE TRUST ESTATE, ALL AS DESCRIBED IN AND SUBJECT TO LIMITATIONS SET FORTH IN THE INDENTURE, FOR THE EQUAL AND RATABLE BENEFIT OF THE HOLDERS, FROM TIME TO TIME, OF THE SERIES 2020 BONDS.

The Agreement

Under the Agreement, the Authority agrees to issue the Series 2020 Bonds and to lend the proceeds thereof to the Borrowers to finance the cost of the Project; and the Borrowers are obligated unconditionally to repay the loan in amounts sufficient, together with available funds held under the Indenture, to provide for the timely payment of the principal of, premium, if any, and interest on the Series 2020 Bonds when due (whether by maturity, mandatory sinking fund redemption or acceleration) and to perform certain other obligations set forth therein.

In the Agreement, the Borrowers agree to issue the 2020 Note to the Authority, which will in turn assign it to the Bond Trustee, to secure the payment of principal of, premium, if any, and interest on the Series 2020 Bonds, all amounts payable under the Agreement, and all Unassigned Rights.

The obligations of the Borrowers to make the payments required under the Agreement and the obligations of the Obligated Group under the 2020 Note and the obligations of the Borrowers to perform and observe the other agreements on their part contained in the Agreement are general obligations of each Borrower, absolute, and unconditional.

All of the Authority's right, title and interest in the Agreement (except Unassigned Rights) and in the 2020 Note are being assigned and pledged to the Bond Trustee as security for the Series 2020 Bonds. The Borrowers consent to such assignment and acknowledge that the Series 2020 Bonds are being issued in reliance by the Bond Trustee upon the assignment of the 2020 Note and the Authority's rights under the Agreement. The Borrowers shall perform all obligations and pay all amounts due from the Authority under the Series 2020 Bonds and the Indenture so that at all times there shall be no default thereunder.

See "RISK FACTORS" for a discussion of certain limitations on the enforceability of the security for the Series 2020 Bonds. See APPENDIX E – "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS."

2020 Note and the Master Indenture. As security for the Borrowers' obligation to make payments required under the Agreement, DeMedici, as Obligated Group Representative, will issue the 2020 Note under the terms of and pursuant to the Master Indenture. The Members' obligations under the Master Indenture and the 2020 Note are joint and several.

Pursuant to the Master Indenture, to secure the Obligations, each Member therein sells, assigns, transfers, sets over and pledges unto the Master Trustee and grants a security interest in all of the right, title and interest of each respective Member in and to all of the Pledged Revenues, any rights to receive such Pledged Revenues, and in the Revenue Fund established thereunder, all moneys and investments therein and all income derived from the investment thereof, to have and to hold in trust for the benefit of the Holders from time to time of all Obligations issued and Outstanding thereunder, without preference or priority of any one Obligation over any other Obligation except as otherwise expressly provided therein.

In order to further secure the Obligations, on an equal and ratable basis, each Borrower will (a) grant a mortgage lien on and security interest in its interest in its respective Facility to the Master Trustee, for the benefit of the holders of the 2020 Note, pursuant to (i) its respective Mortgage and (b) assign its interest in its respective Lease to the Master Trustee pursuant to its respective Mortgage.

The Corporation, each Borrower, and the Master Trustee will also enter into a Subordination, Non-Disturbance and Attornment Agreement dated as of December 1, 2020 (the "Subordination Agreements" and each, a "Subordination Agreement") establishing, among other things, that the lien of the applicable Mortgage is superior to the rights of the Corporation under the applicable Lease. Pursuant to the Subordination Agreements, the Master Trustee, each Borrower, and the Corporation agree, among other things, that (i) the lien of the applicable Mortgage is at all times superior to the rights of the Corporation under the applicable Lease, (ii) the Master Trustee and the applicable Borrower will not disturb the Corporation and its use of the Facilities under the terms of the applicable Lease (even during a foreclosure event) unless the Corporation is in default under the applicable Lease, (iii) if a transfer of the Facilities occurs, then the purchaser/transferee taking possession of the Facilities will attorn to the right of the Corporation under the terms of the applicable Lease (for the balance of the term of such Lease), and (iv) the Corporation will not take any action to assign, cancel, or terminate the Corporation's obligations under the applicable Lease, except as expressly permitted. See APPENDIX E – "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS" for more information on the Subordination Agreements.

Pledged Revenues. The Obligated Group's obligation to make any payment when due under the Master Indenture is limited solely to the Pledged Revenues. "Pledged Revenues" means all payments received or receivable by a Member under the Leases, any and all revenues, rentals, fees, third-party payments, receipts, unrestricted donations, unrestricted contributions or other income of the Members derived from or related to the Mortgaged Property or Corporation (each subject to Permitted Encumbrances), all as calculated in accordance with generally accepted accounting principles, including, without limitation, School District Payments, 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 after the Closing Date owned, held or possessed by the Obligated Group. Notwithstanding anything in the Master Indenture to the contrary, gains or losses resulting from changes in accounting principles not involving the receipt or the expenditure of cash, including, among others, gains or losses resulting from the implementation of GASB 68, are to be excluded from Pledged Revenues for all purposes of the Master Indenture.

Additional Indebtedness. Except for the 2020 Note, additional Indebtedness (whether in the form of new indebtedness or the assumption of existing indebtedness or the guaranteeing of any new or existing indebtedness) may not be incurred by the Obligated Group except as follows.

(a) Additional Indebtedness may be incurred by a Member, so long as no Event of Default then exists under the Master Indenture, as (i) Indebtedness that is secured on a parity basis with the 2020 Note in the collateral pledged under the Master Indenture, (ii) Subordinated Indebtedness, (iii) Non-Recourse Indebtedness, or (iv) Short Term Indebtedness, in each case so long as Corporation has agreed to make additional payments of Base Rentals (as such term is defined in the Leases) under the Leases sufficient to pay the debt service on such additional Indebtedness or Subordinate Indebtedness and which the Corporation would be permitted to incur as Indebtedness (as such term is defined in the Leases) pursuant to the terms of the Leases if incurred directly by the Corporation.

(b) Non-Recourse Indebtedness. A Member may incur Non-Recourse Indebtedness without limitation as to principal amount.

Compliance with Act 22 and the Charter. Each Borrower covenants in the Agreement not to take any actions which would violate Act 22 or the Charter in any way that could reasonably be believed to have a materially adverse effect on the Bonds so long as any Bonds remain Outstanding.

The Indenture

The Series 2020 Bonds are to be issued pursuant to the Indenture and, together with any Additional Bonds that may be issued thereunder (collectively, the "Bonds"), will be equally and ratably secured thereby. The Series 2020 Bonds constitute special, limited obligations of the Authority and are payable solely from the Trust Estate

described in the following sentence. The Bonds are secured by a pledge under the Indenture of the Trust Estate, as defined under the heading "INTRODUCTION - General."

Debt Service Reserve Fund. The Indenture provides for the creation of the Debt Service Reserve Fund in the custody of the Bond Trustee, into which there shall be deposited a portion of the proceeds from the sale of the Series 2020 Bonds in an amount equal to the Debt Service Reserve Fund Requirement.

Except as provided in the Indenture, moneys in the Debt Service Reserve Fund shall be used by the Bond Trustee promptly and solely for the payment of the principal of, premium, if any, and interest on the Series 2020 Bonds in the event moneys in the Bond Principal Fund and Bond Interest Fund are insufficient to make such payments when due, whether on an Interest Payment Date, sinking fund redemption date, maturity date or otherwise in an amount necessary to cure such Event of Default and notwithstanding any other provision of the Indenture. Upon the occurrence and continuance of an Event of Default under the Indenture and the exercise by the Bond Trustee of the remedy specified in the Agreement and under the Indenture, any moneys in the Debt Service Reserve Fund shall be transferred by the Bond 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 Indenture. On the final maturity date of the Series 2020 Bonds any moneys in the Debt Service Reserve Fund may be used to pay the principal of and interest on the Series 2020 Bonds on such final maturity date. In the event of the redemption of the Series 2020 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 Series 2020 Bonds. The Bond Trustee shall value the Investment Obligations in the Debt Service Reserve Fund semiannually on the last Business Day of each June and December of each year at their market value. If on any valuation date the amount in the Debt Service Reserve Fund (determined pursuant to the Indenture) is greater than the Debt Service Reserve Fund Requirement, such excess shall be transferred by the Bond Trustee to the Bond Interest Fund and applied to the payment of the interest on the Series 2020 Bonds; provided, however, that the amount remaining in the Debt Service Reserve Fund (determined pursuant to the Indenture) immediately after such transfer shall not be less than the Debt Service Reserve Fund Requirement on that date. If on any valuation date the amount in the Debt Service Reserve Fund (determined pursuant to the Indenture) is less than the Debt Service Reserve Fund Requirement, the Bond Trustee shall notify the Borrowers of their obligation pursuant to the Agreement.

At such time as moneys are to be transferred out of the Debt Service Reserve Fund for deposit into the Bond Principal Fund or the Bond Interest Fund or to the Rebate Fund pursuant to the Indenture, the Bond Trustee shall use cash or Investment Obligations in such order of priority as the Borrowers shall direct in writing. If no direction from the Borrower has been received, the Bond Trustee shall first use cash equivalents and second liquidate other Investment Obligations in the Debt Service Reserve Fund in such manner as the Bond Trustee shall determine in its sole discretion.

Within five Business Days of any transfer of funds from the Debt Service Reserve Fund, as described in the Indenture, to the Bond Principal Fund or the Bond Interest Fund, the Bond Trustee shall notify the Borrowers in writing 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.

There shall be paid to the Bond Trustee for deposit in the Debt Service Reserve Fund in the event that the sum of moneys in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement in not more than six (6) consecutive equal monthly payments beginning in the month following the date on which such deficiency occurs and monthly thereafter, money in the aggregate amount sufficient to cause the total amount in the Debt Service Reserve Fund to equal the Debt Service Reserve Fund Requirement. The reduction of the balance in the Debt Service Reserve Fund below the Debt Service Reserve Fund Requirement shall not constitute a default if and only if there shall be paid monthly to the Bond Trustee for deposit in the Debt Service Reserve Fund at least one-sixth (1/6) of the deficiency, until the Debt Service Reserve Fund Requirement is restored.

The Debt Service Reserve Fund shall be in the custody of the Bond Trustee, but in the name of the Authority, and the Authority authorizes and directs the Bond Trustee in the Indenture to withdraw sufficient funds from the Debt Service Reserve Fund to pay the principal of, premium, if any, and interest on the Series 2020 Bonds and for the purpose described in the Indenture, which authorization and direction the Bond Trustee accepts in the Indenture. In the event there shall be a deficiency in the Bond Principal Fund or the Bond Interest Fund on any payment date for

the Series 2020 Bonds, the Bond Trustee shall promptly make up such deficiency from the Debt Service Reserve Fund so that the amount therein is equal to such deficiency.

See APPENDIX E — "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS."

Capital Maintenance Fund. The Indenture provides for the creation of the Capital Maintenance Fund in the custody of the Bond Trustee which Capital Maintenance Fund is to be used for the purpose of paying the cost of maintenance, repairs and replacements which may be required to keep the Facilities in sound condition, including but not limited to repair and replacement of equipment, repair and replacement of any roof or other structural component, exterior painting and the repair and replacement of heating, air conditioning, plumbing and electrical equipment and floor covering. The Capital Maintenance Fund shall be required to be maintained in an amount equal to the Capital Maintenance Fund Requirement. See APPENDIX E – "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS" attached hereto for terms and provisions of the Indenture and the Agreement applicable to the Capital Maintenance Fund Requirement.

"Capital Maintenance Fund Requirement" means \$600,000, provided, however that such amount may be increased, if necessary, upon the issuance of Additional Bonds.

"Monthly Capital Maintenance Fund Contribution" means \$10,000.

Revenue Fund. The Indenture provides for the creation of a Revenue Fund. The Bond Trustee is directed in the Indenture to deposit into the Revenue Fund all payments received under the 2020 Note issued by DeMedici, as Obligated Group Representative under the Master Indenture, to evidence and secure the Borrowers' payments obligations under the Agreement, which 2020 Note and Agreement have been assigned to the Bond Trustee as security for the payment of the Series 2020 Bonds and any other amounts required or permitted to be deposited therein pursuant to the provisions of the Indenture.

All moneys held on deposit in the Revenue Fund are disbursed by the Bond Trustee on each Monthly Disbursement Date in the following order of priority:

FIRST: on each Monthly Disbursement Date, commencing in the month of January 2021, to the Bond Interest Fund, 1/6th of the interest which will become due on the Bonds on the next succeeding Interest Payment Date (after taking into consideration earnings previously earned and credited to the Bond Interest Fund and any other credits specified in the Indenture) so that the funds available therein are sufficient to pay interest which will become due on the Series 2020 Bonds on the next succeeding Interest Payment Date; provided however, in the event that the first full month following the month in which the Series 2020 Bonds are issued is not six months prior to the first Interest Payment Date, which is June 15, 2021, an amount equal to the Pro Rata Portion of the interest to come due on the Bonds shall be substituted for the 1/6th payments otherwise required prior to the first Interest Payment Date;

SECOND: on each Monthly Disbursement Date, commencing in the month of January 2021, to the Bond Principal Fund, 1/12th of the principal which will become due on the Bonds on the next succeeding principal payment date (after taking into consideration earnings previously earned and credited to the Bond Principal Fund and any other credits specified in the Indenture) so that the funds available therein are sufficient to pay the principal which will become due on the Bonds on the next succeeding principal payment date; provided, however, in the event that the first full month following the month in which the Series 2020 Bonds are issued is not twelve months prior to the first principal payment date, which is June 15, 2021, an amount equal to the Pro Rata Portion of the principal to come due on the Bonds shall be substituted for the 1/12th payments otherwise required prior to the first principal payment date;

THIRD: on each Monthly Disbursement Date, to the Debt Service Reserve Fund the amount required, if any, under the Indenture, to restore the balance therein to the Debt Service Reserve Fund Requirement;

FOURTH: at such time as may be required by the Indenture, to the Rebate Fund, the amount required to be deposited thereunder as directed by the Borrowers;

FIFTH: on each Monthly Disbursement Date, to the Capital Maintenance Fund, commencing in the month of January 2021, the Monthly Capital Maintenance Fund Contribution, if necessary until the amount therein equals the Capital Maintenance Fund Requirement; and

SIXTH: provided the Bond Trustee has not received notice that any Event of Default has occurred and is continuing under the Indenture, all amounts remaining on deposit in the Revenue Fund after the Bond Trustee has made the disbursements required in FIRST through FIFTH above, shall be transferred to the Corporation pursuant to written instructions provided by or on behalf of the Borrowers to the Bond Trustee.

If moneys held in the Revenue Fund are inadequate to complete the transfers described above on a Monthly Disbursement Date, the unfunded amounts shall be added to the amounts to be transferred as described above on the next Monthly Disbursement Date.

If the Bond Trustee does not receive payments under the Agreement or the 2020 Note by the 10th day of each month, the Bond Trustee will immediately notify the Authority, the Borrowers, and the Corporation of such nonpayment.

Payment of any and all management fees due and owing to any third-party management company will be subordinate to the payment of debt service on the Bonds, and shall be paid by the Corporation to such management company in accordance with SIXTH above.

Other Funds under the Indenture. A Bond Principal Fund, a Bond Interest Fund, a Project Fund, an Issuance Expense Fund, and a Rebate Fund are also established with the Bond Trustee under the Indenture. See the form of Indenture in APPENDIX E for a description of each of these Funds and the application of moneys held therein.

The Mortgages

The Mortgages secure all amounts owed by the Obligated Group under the Master Indenture. Simultaneously with the issuance of the Series 2020 Bonds, each Borrower will deliver a title insurance policy covering the Mortgaged Property (as defined in its respective Mortgage) under its respective Mortgage and insuring title to the Mortgaged Property and the lien of such Mortgage in an amount not less than the aggregate principal amount of the 2020 Note. See APPENDIX E – "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS" for more information on the Mortgages.

The Subordination Agreements

The Corporation, each Borrower, and the Master Trustee will also enter into a Subordination, Non-Disturbance and Attornment Agreement dated as of December 1, 2020 (the "Subordination Agreements" and each, a "Subordination Agreement") establishing, among other things, that the lien of the applicable Mortgage is superior to the rights of the Corporation under the applicable Lease. Pursuant to the Subordination Agreements, the Master Trustee, each Borrower, and the Corporation agree, among other things, that (i) the lien of the applicable Mortgage is at all times superior to the rights of the Corporation under the applicable Lease, (ii) the Master Trustee and the applicable Borrower will not disturb the Corporation and its use of the Facilities under the terms of the applicable Lease (even during a foreclosure event) unless the Corporation is in default under the applicable Lease, (iii) if a transfer of the Facilities occurs, then the purchaser/transferee taking possession of the Facilities will attorn to the right of the Corporation under the terms of the applicable Lease (for the balance of the term of such Lease), and (iv) the Corporation will not take any action to assign, cancel, or terminate the Corporation's obligations under the applicable Lease, except as expressly permitted. See APPENDIX E – "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS" for more information on the Subordination Agreements.

The Leases

Under each Lease, the Lease Term shall commence on the Closing Date and end on June 15, 2050, subject to earlier termination in accordance with such Lease.

Base Rent. Under each Lease, the Corporation shall pay or cause to be paid Base Rent directly to the Master Trustee for the account of the applicable Borrower during the Lease Term, on the Base Rent Payment Dates, without notice or demand. The Base Rent during the Lease Term shall be in the amounts set forth in the Leases, as from time to time amended or supplemented, including in connection with the issuance of any Notes under the Master Indenture. The amount of Base Rent due under the DeMedici Lease, together with the Base Rent payable under the DeMedici II Lease, and vice versa, shall be recalculated by the applicable Borrower in the event of issuance of any Notes, any partial redemption of any Notes prior to maturity and to reflect any credits against installment payments due from the applicable Borrower under the Agreement. Notwithstanding the foregoing, the Base Rent specified under the DeMedici Lease shall not be duplicative of any payments made by Corporation with respect thereto under the DeMedici II Lease, and vice versa, it being understood and agreed that the Corporation shall receive credit against the payments due under the DeMedici Lease for any payments made with respect to the DeMedici II Lease, and vice versa, and the aggregate of all sums paid under both the DeMedici Lease and the DeMedici II Lease shall equal the sums due thereunder and if either such Lease is cancelled or terminated the total sums due thereunder shall not be diminished in any regard.

Additional Rent.

(I) Under each Lease, the Corporation shall pay Additional Rent during the Lease Term as therein provided. With the exception of any Additional Rent that are required to be paid by Corporation to a specified party pursuant to the Leases, the Additional Rent during the Lease Term shall be estimated annually by the applicable Borrower and the Corporation and such estimate shall be in an amount sufficient to pay the following costs during the next ensuing Fiscal Year; (i) the reasonable fees and expenses of the Authority, the Master Trustee and the Trustee; (ii) payments into the Debt Service Reserve Fund required by the Indenture; (iii) payments into the Rebate Fund required by the Indenture; (iv) payments into the Capital Maintenance Fund required by the Indenture and the Agreement; (v) the cost of insurance premiums for the Leased Property, unless otherwise paid by Tenant; and (v) all other costs included in the definition of, or expressly required to be paid by the Lessee as Additional Rent under such Lease. In the Leases, the Corporation agrees that, to the extent that Debt Service Reserve Fund moneys are applied pursuant to the Indenture or, to the extent that, for any other reason, the amounts in any account within the Debt Service Reserve Fund are less than the Debt Service Reserve Fund Requirement, the Corporation shall promptly pay to the Trustee in accordance with the Agreement, for deposit in the Debt Service Reserve Fund, from the amounts for the payment of Additional Rent, such amounts as are required to restore the amount on deposit in the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement. In the Leases, the Corporation has agreed to pay to the applicable Borrower, as Additional Rent, all costs and expenses incurred by the applicable Borrower in connection with any investigation, claim, demand, suit, action or proceeding relating to the activities of the applicable Borrower or the Corporation in respect of the Leased Property, the Master Indenture, the Agreement, such Lease, the Bonds or any matter related thereto. Notwithstanding the foregoing, with respect to payments due in connection with sums due in connection with obligations under the Agreement, the Indenture, and the Master Indenture, such payments shall not be duplicative of any payments made by Corporation with respect thereto under the Leases, it being understood and agreed that the Corporation shall receive credit against the payments due under the DeMedici Lease for any payments made with respect to the DeMedici II Lease and the aggregate of all sums paid under both Leases shall equal the sums due thereunder and if either such Lease is cancelled or terminated the total sums due under the other Lease shall not be diminished in any regard.

(II) The Corporation and the applicable Borrower may agree on the payments of other Additional Rent under a Lease if the Corporation and the applicable Borrower deliver to the Master Trustee an Officer's Certificate certifying that, for the applicable Fiscal Year, after taking into account such proposed Additional Rent, the Corporation will be in compliance with all financial and other covenants contained in such Lease and that no Event of Default exists under such Lease, and that with such Additional Rent, the applicable Borrower will be in compliance with all financial and other covenants contained in the Master Indenture and that no event of default exists under the Master Indenture. Payment of Additional Rent pursuant to this paragraph will be subordinate to the payment of Base Rent.

Under the terms of the Leases, the Corporation has agreed to transfer or cause the transfer of an amount equal to the amounts due under the Leases consisting of the Base Rent, Additional Rents and other amounts payable by the Corporation under the Leases, directly to the Master Trustee.

The primary source of Pledged Revenues for the repayment of the 2020 Note is the Base Rent, which is the amount of rental payments due by the Corporation to the Borrowers under the Leases.

Amounts due under the Leases are expected to be paid by the Corporation from, and are secured by a pledge of, Gross Revenues, which means all income and revenues directly or indirectly derived by the Corporation from its operations, including without limitation, School District Payments and other funding received by virtue of the Charter, rentals from any leases and subleases of the Leased Property, and all gifts, grants, bequests and contributions (including income and profits therefrom) made to the Corporation to the extent not specifically restricted by the donor or maker (including specifically the federal government, the Commonwealth or local governmental unit) thereof to a particular purpose inconsistent with their use for the payments required hereunder.

See APPENDIX E – "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS."

Limitations on Incurrence of Additional Indebtedness - Corporation. Each Lease provides that the Corporation will not incur or assume (the terms "incur" and "assume," for the purposes thereof, mean and include the guaranteeing of, or the direct or indirect assumption of liability for, the debts of others) any Indebtedness other than as permitted by the following provisions.

(a) The Corporation may incur or assume Indebtedness (taking into account all extension or renewals thereof which may be made at the sole option of the Corporation) (i) with a term which does not exceed five (5) years; and (ii) the maximum annual amount of principal and interest payable on which, when added to the maximum annual amount of principal and interest payable on any other Indebtedness of the Corporation incurred under this provision and then outstanding, does not exceed 5% of the Gross Revenues for the Fiscal Year then most recently completed for which Audited Financial Statements are available.

(b) **Long Term Indebtedness.** Long Term Indebtedness (which may be secured in whole or in part by the Collateral on a parity with its obligation under such Lease) may be incurred by the Corporation if it delivers both items (i) and (ii) below or (iii) below to the applicable Borrower and the Master Trustee:

(i) an Officer's Certificate certifying that the Debt Service Coverage Ratio for the two most recent Fiscal Years with respect to which Audited Financial Statements have been delivered to the Master Trustee was at least 1.10; and

(ii) a written report, forecast or feasibility study prepared by a Consultant demonstrating and concluding that the Debt Service Coverage Ratio for each of the first three consecutive Fiscal Years following the incurrence of such Long Term Indebtedness or, if such Long Term Indebtedness is being issued to finance improvements, equipment or new facilities, the first three consecutive Fiscal Years after such improvements, equipment or new facilities are placed in service and enrollment has stabilized (i.e., enrolled students occupy at least ninety-five percent (95%) of all seats authorized by the charter), is projected to be at least 1.20 (taking into account the proposed additional Long Term Indebtedness and any Long Term Indebtedness to be refinanced thereby and provided that, the projected Net Income Available for Debt Service used to compute the Debt Service Coverage Ratio is to be adjusted to provide for any projected revenues and expenses anticipated as the result of any real or personal property acquired, constructed, or completed with the proceeds of any such Long Term Indebtedness); or

(iii) Long Term Indebtedness may be incurred by the Corporation for the purpose of refunding any Outstanding Long Term Indebtedness so as to render it no longer Outstanding; provided, however, that, an Officer's Certificate certifying that (A) the aggregate Debt Service Requirements of the Corporation will not be increased by more than 5% as a result of such new refunding Long Term Indebtedness and (B) the maximum annual amount of principal and interest payable on any other Indebtedness of the Corporation will not be increased by more than 5% as a result of such new refunding Long Term Indebtedness (the foregoing notwithstanding, Long Term Indebtedness incurred by the Corporation for the purpose of refunding any Outstanding Long Term Indebtedness may nevertheless be incurred without complying with the 5% limits of this subsection if such Long Term Indebtedness may be incurred under provisions (i) and (ii) above).

(c) Long Term Indebtedness incurred as Variable Rate Indebtedness is subject to paragraph (f).

(d) Short Term Indebtedness. Short Term Indebtedness (secured in whole or in part by the Collateral on a parity with its obligation under such Lease) may be incurred from time to time by Corporation, subject to the following conditions:

(i) the principal amount of any Short Term Indebtedness to be incurred, may not exceed \$1,000,000 and, when added to the then outstanding principal amount of all Short Term Indebtedness, Subordinated Indebtedness and Non-Recourse Indebtedness, may not exceed 7% of Gross Revenues, as set forth in the most recent Audited Financial Statements of the Corporation; provided that if such Short Term Indebtedness is being incurred to cover any cash flow needs of Corporation as a result of any delays in School District Payments or of the failure of the Commonwealth to timely enact a state budget, the \$1,000,000 limitation set forth in this subsection (i) shall be increased to 7% of Gross Revenues, notwithstanding any outstanding principal of any Subordinated Indebtedness or Non-Recourse Indebtedness; or

(ii) any such Short Term Indebtedness could be incurred under the tests set forth in paragraph (b) treating such Short Term Indebtedness as Long Term Indebtedness.

For seven (7) consecutive days within each Fiscal Year, the Corporation must reduce the aggregate principal amount of all outstanding Short Term Indebtedness, when added to the then outstanding principal amount of all Long Term Indebtedness incurred pursuant to paragraph (a), to 5% of the Gross Revenues, as set forth in the most recent Audited Financial Statements of the Corporation; provided that such percentage may be increased to 7% of the Gross Revenues for the immediately preceding Fiscal Year in the event of delays in School District Payments if there is delivered to the Master Trustee an Officer's Certificate to the effect that such delays are more extensive than were anticipated or could not reasonably have been anticipated by the Corporation in establishing its operating budget for the Fiscal Year in which such Short Term Indebtedness is outstanding.

(e) Variable Rate Indebtedness. For the purpose of determining the Debt Service Requirements on any Variable Rate Indebtedness, the Debt Service Requirements thereon shall be deemed to include the amount of principal maturing or subject to mandatory redemption in such year plus interest at the rate equal to the Bond Index. Additionally, the Debt Service Requirements on Variable Rate Indebtedness that is Long Term Indebtedness with respect to which the Corporation has entered into a Qualified Derivative shall be further modified in accordance with paragraph (h).

(f) Non-Recourse Indebtedness. The Corporation may incur Non-Recourse Indebtedness provided that: (i) at the time of incurrence, no Event of Default exists under such Lease and (ii) the aggregate amount of Non-Recourse Indebtedness, together with Short Term Indebtedness and Subordinated Indebtedness, that may be outstanding at any time is limited to 7% of Gross Revenues, as set forth in the most recent Audited Financial Statements of the Corporation.

(g) Subordinated Indebtedness. The Corporation may incur Subordinated Indebtedness provided that: (i) at the time of incurrence, no Event of Default exists under such Lease and (ii) the aggregate amount of Subordinated Indebtedness, together with Short Term Indebtedness and Non-Recourse Indebtedness, that may be outstanding at any time is limited to 7% of Gross Revenues, as set forth in the most recent Audited Financial Statements of the Corporation.

(h) Qualified Derivatives. The Corporation may enter into any Qualified Derivative provided that: it is entered into in connection with Indebtedness permitted under such Lease and the following provisions are satisfied:

(i) The regularly scheduled periodic payments and/or termination payments due on a Qualified Derivative may be granted a security interest in the Collateral on a parity basis with the obligation of the Corporation under such Lease upon written notice to the applicable Borrower and the Master Trustee.

(ii) Determinations of Net Income Available for Debt Service are not to take into account any extraordinary gains or losses, unrealized gains or losses resulting from the periodic valuation of Qualified Derivatives, or gains or losses resulting from the termination, defeasance or discharge of any Qualified Derivative.

(iii) Any posting of collateral by the Corporation pursuant to the terms of any Qualified Derivative will be considered a "Permitted Encumbrance" for purposes of such Lease. The posting of collateral as well as any payment of any termination or settlement amounts will be considered asset dispositions subject to the provisions of such Lease.

(iv) The Corporation's liability to make termination payments pursuant to a Qualified Derivative may be either (A) a general unsecured obligation of the Corporation or (B) an obligation subordinate to or on parity with the Corporation's duty to pay Base Rent and Additional Rent under such Lease; provided, however, that in the case of a subordinated termination payment, such termination payment may be payable only to the extent it does not result in the occurrence of an Event of Default under such Lease. At such time as the Corporation's obligation to make a termination payment pursuant to a Qualified Derivative is no longer contingent, i.e., the condition giving rise to the payment of such termination payment has arisen and the amount of termination payment has been quantified, the amount of such termination payment, if the Corporation's duty to pay such termination payment is secured on a parity basis with the Corporation's obligation to pay Base Rent and Additional Rent under such Lease, will be deemed to be Indebtedness for purposes of such Lease.

(v) For purposes of the computation of Debt Service Requirements, interest on Long Term Indebtedness with respect to which the Corporation has entered into a Qualified Derivative will be deemed equal to a net rate that takes into account the regularly scheduled payments made by the Corporation and the regularly scheduled payments made to or received by the Corporation under such Qualified Derivative; provided that only such portion of the Long Term Indebtedness as corresponds to the notional amount of such Qualified Derivative will be deemed to bear interest at such net rate. So long as such Long Term Indebtedness is deemed to bear interest at a rate taking into account a Qualified Derivative, any payments made by the Corporation on such Qualified Derivative will be excluded from expenses and any payments received by the Corporation on such Qualified Derivative will be excluded from revenues.

(vi) Each Qualified Derivative shall be in such form and contain such provisions as may be permitted or required under such Lease and that the Master Trustee shall have received (as of the date of issue) the following, each in form and substance satisfactory to the Master Trustee:

(i) A certified resolution of the board of the Corporation approving the execution of the Qualified Derivative and the purpose thereof.

(ii) An Officer's Certificate stating that (1) no Event of Default has occurred and is continuing under such Lease and (2) the applicable requirements for entering into the Qualified Derivative under such Lease has been satisfied.

(iii) An executed counterpart or certified copy of the related Qualified Derivative and all related financing documents delivered in connection with the Qualified Derivative.

An opinion of Counsel to the effect that (1) entering into the Qualified Derivative has been duly authorized by the Corporation, (2) all applicable requirements for entering into the Qualified Derivative under such Lease has been satisfied; and (3) to the best of such Counsel's knowledge, all necessary approvals of all Regulatory Bodies having jurisdiction have been obtained with respect to the entering into the Qualified Derivative.

Any Indebtedness and Qualified Derivative incurred as provided in such Lease may be secured only as provided below:

- (a) if authorized by the provisions described above, by a lien or security interest that is secured on a parity basis to the Lien and security interest created by such Lease;
- (b) unless authorized by the provisions described above, by a lien on and security interest in any property or interest in property, real, personal or mixed, of the Corporation other than the Property or the Collateral;
- (c) 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;
- (d) by a lien on and security interest in the Collateral that is subordinate to the Lien and security interest created by such Lease; or
- (e) any Indebtedness which is incurred for the purpose of providing working capital, including a line of credit, may be secured by a security interest in Accounts on a parity with the security interest created therein by such Lease. Any agreement for the repayment of such Indebtedness and instruments evidencing or securing the same shall provide that all notices to be given to the lender of such Indebtedness regarding defaults by the Corporation are also to be provided to the Master Trustee, as assignee of the applicable Borrower, and the applicable Borrower, and shall specify the rights of the Master 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 Indebtedness.

Remedies Upon an Event of Default. For a complete description of events of default and remedies under the Leases, see the form of a Lease in APPENDIX E — "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS."

Financial Covenants of the Corporation

Debt Service Coverage Ratio under the Leases. In each Lease, the Corporation makes the following covenant:

(i) Annually, promptly upon completion of the Corporation's Audited Financial Statements, the Corporation must deliver to the applicable Borrower and the Master Trustee an Officer's Certificate disclosing the Debt Service Coverage Ratio for the Fiscal Year then ended (calculated as of the end of such the Fiscal Year) and evidencing the calculation thereof. If the Debt Service Coverage Ratio disclosed in the Officer's Certificate required by this Debt Service Coverage Ratio Covenant is below 1.00, then, to the extent that the applicable Borrower is required to disclose financial and operating data pursuant to the requirements of Master Indenture, the applicable Borrower covenants to post or cause to be posted on EMMA (as defined in the Master Indenture) a copy of such Officer's Certificate within ten business days of delivery of the certificate to the applicable Borrower pursuant to this Debt Service Coverage Ratio Covenant.

(ii) The Corporation covenants to achieve a Debt Service Coverage Ratio at or above 1.10 for each Fiscal Year.

(iii) If, for any Fiscal Year, such Debt Service Coverage Ratio is below 1.10, the Corporation must retain, within 30 days of delivery of the Officer's Certificate required by paragraph (i) and at its expense, a Consultant to prepare and submit a written report within 45 days of being retained (a copy of such report is to be filed with the applicable Borrower and the Master Trustee) including recommendations with respect to increasing income of the Corporation, decreasing Operating Expenses or other financial matters of the Corporation which are relevant to increasing the Debt Service Coverage Ratio to at least the required level, which recommendations are to take into account the extent to which the Corporation may be prevented from increasing its revenues under any existing contracts or applicable laws or regulations or due to changes in reimbursement by any School District. If, however, such failure to satisfy the requirements of this Debt Service Coverage Ratio Covenant is the result solely of an extraordinary event that is not likely to recur, such report need only state such conclusion.

(iv) The Corporation agrees that promptly upon the receipt of such Consultant's report, subject to applicable requirements or restrictions imposed by law, it will revise its methods of operation and take such other

actions to comply with any reasonable recommendations of the Consultant identified in its report. So long as the Debt Service Coverage Ratio is not below 1.00 for any Fiscal Year, and so long as the Corporation retains a Consultant and diligently and in good faith complies with such Consultant's reasonable recommendations (subject to applicable requirements or restrictions imposed by law) in all material respects, no Event of Default may be declared solely by reason of a violation of the requirements of paragraph (ii) with respect to such Fiscal Year.

"Debt Service Coverage Ratio" means, for any specified period, the ratio determined by dividing the Net Income Available for Debt Service for such period (including amounts due under both Leases) by the Debt Service Requirements.

Liquidity Covenant. In each Lease, the Corporation makes the following covenant:

(i) The Corporation covenants and agrees that it will maintain at least 45 Days Cash On Hand, as of the end of each Fiscal Year.

(ii) The covenant detailed in paragraph (i) is to be tested as of June 30 of each year and evidenced by an Officer's Certificate of the Corporation delivered to the applicable Borrower and the Master Trustee setting forth the calculation of such amount based on the results of the Audited Financial Statements of the Corporation for such Fiscal Year promptly upon release of such Audited Financial Statements. If on any June 30, the Corporation's Days Cash On Hand is below that required by this Liquidity Covenant, the Corporation is required to retain, at its expense, a Consultant to submit a written report and make recommendations within forty-five (45) days of being retained (a copy of such report and recommendations is to be filed with the applicable Borrower, the Master Trustee and the holders of any Obligations issued under the Master Indenture) with respect to increasing revenues of the Corporation, decreasing Operating Expenses of the Corporation or other financial matters of the Corporation which are relevant to increasing the Corporation's Days Cash On Hand to at least the level required by this Liquidity Covenant. The Corporation agrees that promptly upon the receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, it will revise its methods of operation and take such other actions to comply with any reasonable recommendation of the Consultant identified in the report of the Consultant. So long as the Corporation retains a Consultant and complies with such Consultant's reasonable recommendations (subject to applicable requirements or restrictions imposed by law), no default or Event of Default may be declared solely by reason of a violation of the requirements of paragraph (i).

"Days Cash On Hand" means the number determined as of the end of each Fiscal Year (unless otherwise specified) by dividing (a) Unrestricted Cash and Investments, by (b) the quotient of (i) Operating Expenses, excluding depreciation and amortization but including interest expense, divided by (ii) the number of calendar days in the applicable Fiscal Year as of the date of testing.

Selection of Consultant.

The Leases provide that, to the extent that the Corporation is required by the Debt Service Coverage Ratio Covenant or the Liquidity Covenant to engage a Consultant, the following procedures are to be followed.

(i) Within fifteen (15) days of the occurrence of any event requiring Corporation to retain a Consultant in connection with the Debt Service Coverage Ratio Covenant or the Liquidity Covenant, Corporation will select such Consultant, will notify applicable Borrower of such selection and will cause a notice of the selection of such Consultant, including the name of such Consultant and a brief description of the Consultant, to be (a) sent to the holder of each Obligation then Outstanding under the Master Indenture and (b) filed with EMMA (such EMMA filing being required only if the applicable Borrower has, as of such date, agreed to provide continuing disclosure of financial and operating data pursuant to any Related Financing Documents). Such notice of the selection of such Consultant must also state the matters set forth in the Master Indenture.

(ii) If Corporation is advised by the applicable Borrower or the Master Trustee that the Holders of more than 50% of the aggregate principal amount of the Obligations Outstanding under the Master Indenture have objected to the Consultant selected, Corporation must select another Consultant.

Notwithstanding the foregoing, prior to the end of the 30-day objection period, Corporation may replace the initial Consultant and select a different Consultant by sending the notices required by paragraph (i) above. A second

30-day objection period will commence. No later than two Business Days after the end of the 30-day objection period, Corporation is to be notified by applicable Borrower in writing of the aggregate principal amount of Obligations Outstanding held by the Holders submitting objections. If Corporation is notified that the Holders of more than 25% of the aggregate principal amount of the Obligations Outstanding have been deemed to have consented to the selection of the Consultant or have not responded to the request for consent, Corporation must engage the Consultant within two Business Days of receipt of the written notice from the applicable Borrower. If the Holders of at least 75% of the aggregate principal amount of the Obligations Outstanding have objected to the Consultant selected, Corporation must select another Consultant.

School District Payments. In the Leases, the Corporation covenants to direct the School District and the Commonwealth, as applicable, to pay all School District Payments directly to the Master Trustee in accordance with the Master Indenture to facilitate the timely payment of Base Rent and Additional Rent under the Leases.

Educational Service Provider; Subordination of Management Fee. In the Leases, the Corporation agrees and acknowledges that payment of any and all management fees by the Corporation to any management company is subordinate to the payment of Base Rent and Additional Rent thereunder sufficient to pay debt service on the 2020 Note. For purposes of this covenant, a management company fee will be deemed to be subordinate to the payment of Base Rent and Additional Rent if payment of such fees payable on any date may not be paid until such time as all amounts due and payable under such Lease have been paid. Any management company to be retained by the Corporation must agree in writing to such subordination.

For a complete description of financial covenants under the Leases, see the form of a Lease in APPENDIX E — "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS."

Charter Covenants. In the Leases, the Corporation covenants (i) to operate in accordance with the terms of an effective Charter at all times, (ii) to operate its facilities in compliance with the Charter at all times and (iii) to file for renewal of its Charter with the appropriate public body within the time required by the Charter authorizer prior to the expiration of the Charter. The Corporation shall provide notice to the Holders of the Outstanding Obligations as soon as possible, but in any event not later than ten (10) calendar days, upon receipt of any material notice or event with respect to the Charter.

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DEBT SERVICE REQUIREMENTS

Set forth in the following table are the aggregate debt service requirements for the Series 2020 Bonds. As of the Closing Date, the Borrowers and the Corporation will have no Indebtedness outstanding other than in connection with the Series 2020 Bonds.

Period Ending	Series 2020 Bonds		Total
June 15,	Principal	Interest	Debt Service
2021	\$400,000	\$1,328,914	\$1,728,914
2022	795,000	2,584,050	3,379,050
2023	825,000	2,552,250	3,377,250
2024	860,000	2,519,250	3,379,250
2025	905,000	2,476,250	3,381,250
2026	950,000	2,431,000	3,381,000
2027	995,000	2,383,500	3,378,500
2028	1,045,000	2,333,750	3,378,750
2029	1,100,000	2,281,500	3,381,500
2030	1,155,000	2,226,500	3,381,500
2031	1,210,000	2,168,750	3,378,750
2032	1,270,000	2,108,250	3,378,250
2033	1,335,000	2,044,750	3,379,750
2034	1,400,000	1,978,000	3,378,000
2035	1,470,000	1,908,000	3,378,000
2036	1,545,000	1,834,500	3,379,500
2037	1,620,000	1,757,250	3,377,250
2038	1,705,000	1,676,250	3,381,250
2039	1,785,000	1,591,000	3,376,000
2040	1,875,000	1,501,750	3,376,750
2041	1,970,000	1,408,000	3,378,000
2042	2,070,000	1,309,500	3,379,500
2043	2,170,000	1,206,000	3,376,000
2044	2,280,000	1,097,500	3,377,500
2045	2,395,000	983,500	3,378,500
2046	2,515,000	863,750	3,378,750
2047	2,640,000	738,000	3,378,000
2048	2,770,000	606,000	3,376,000
2049	2,910,000	467,500	3,377,500
2050	6,440,000	322,000	6,762,000
	\$52,405,000	\$50,687,214	\$103,092,214

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RISK FACTORS

An investment in the Series 2020 Bonds involves a significant degree of risk and is subject to a number of significant risk factors. The following information should be considered by prospective investors in evaluating an investment in the Series 2020 Bonds. The following does not purport to be an exhaustive list of risks and other considerations which may be relevant to investing in the Series 2020 Bonds. The order in which the following information is presented is not intended to reflect the relative importance of any such risks. Prospective investors should carefully evaluate the risks and merits of an investment in the Series 2020 Bonds and should confer with their own legal and financial advisors before purchasing any of the Series 2020 Bonds. The Series 2020 Bonds should only be purchased by investors who have adequate experience to evaluate the merits and risks of an investment in the Series 2020 Bonds and sufficient resources to assume such risks.

Limited Obligations of Authority

THE SERIES 2020 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY, AND THE SERIES 2020 BONDS AND THE INTEREST THEREON AND REDEMPTION PREMIUM, IF ANY, SHALL NOT BE DEEMED TO CONSTITUTE OR CREATE AN INDEBTEDNESS, LIABILITY OR OBLIGATION OF THE AUTHORITY, THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF WITHIN THE MEANING OF ANY COMMONWEALTH CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION OR A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY SUCH POLITICAL SUBDIVISION OR AGENCY. THE SERIES 2020 BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM AND SECURED BY THE TRUST ESTATE, ALL AS DESCRIBED IN AND SUBJECT TO LIMITATIONS SET FORTH IN THE INDENTURE, FOR THE EQUAL AND RATABLE BENEFIT OF THE HOLDERS, FROM TIME TO TIME, OF THE SERIES 2020 BONDS.

Sufficiency of Revenues

The Series 2020 Bonds are payable solely from certain payments, revenues and other amounts derived by the Authority pursuant to the Indenture and the Agreement, and are secured by such revenues and a pledge of certain funds and accounts created under the Indenture and the additional security provided by the Agreement, the Leases, the Master Indenture, and the Mortgages. Based on present circumstances, and based on its projections regarding future enrollment at the School, the Corporation believes that it will generate Gross Revenues sufficient to pay operating expenses and amounts due under the Leases and the Borrowers believe that they will generate revenues and Pledged Revenues sufficient to meet their obligations under the Agreement and the Master Indenture, respectively; however, no representation or assurance can be given or made that the Borrower will generate sufficient Pledged Revenues to meet such obligations.

A number of factors could have an adverse effect on the ability of the Corporation to generate Gross Revenues sufficient to pay operating expenses and amounts due under the Leases and an adverse effect the ability of the Borrowers to generate revenues and Pledged Revenues sufficient to meet their obligations under the Agreement and the Master Indenture, respectively, including Commonwealth budget pressures, demand for charter school education, changes in the level of confidence in the public school system in general or public charter schools in particular, competition, faculty recruitment, demographic changes, legislation, governmental regulations, litigation, the Corporation's ability to achieve and maintain enrollment levels at the School. This, in turn, is affected by numerous circumstances both within and outside the control of the Borrowers and the Corporation, including continuation of favorable governmental policies and programs with respect to public charter schools, the competitive appeal and perceived quality of the School's curriculum, the ability and involvement of the faculty and administration of the School, Management, and management of the Borrowers, and the benevolence of supporters of the Borrowers and the Corporation. **THERE CAN BE NO ASSURANCE GIVEN THAT THE REVENUES OF THE BORROWERS OR THE CORPORATION WILL NOT DECREASE. ANY AND ALL FINANCIAL PROJECTIONS MADE BY THE BORROWERS AND THE CORPORATION ARE ONLY GOOD FAITH ESTIMATES AND ARE NOT INTENDED AS A REPRESENTATION OR WARRANTY AS TO THE FUTURE FINANCIAL CONDITION OF THE BORROWERS OR THE CORPORATION. SEE "FINANCIAL PROJECTIONS" BELOW.**

A default may occur if the funds pledged to repay and secure the Series 2020 Bonds are not sufficient to pay debt service on the Series 2020 Bonds when due. The consequences of a default may be serious and, depending on applicable Commonwealth law and the terms of the authorizing documents, the holders of the Series 2020 Bonds may be able to exercise a range of available remedies. Budgetary adjustments and other revenue-generating measures, including the incurrence of debt, may be necessary to enable the Corporation to generate Gross Revenues sufficient to pay operating expenses and amounts due under the Leases and the Borrowers to generate revenues and Pledged Revenues sufficient to meet their obligations under the Agreement and the Master Indenture, respectively, in respect of debt service on the Series 2020 Bonds; however, a default may effectively limit the Borrowers' or the Corporation's ability to publicly offer bonds or other securities at market interest rate levels. Further, if the Borrowers and the Corporation are unable to provide sufficient funds to remedy the default, subject to applicable Commonwealth law and the terms of the authorizing documents, the Borrowers or the Corporation may find it necessary to consider available alternatives under Commonwealth law, including a sale of all or a portion of the Facility or bankruptcy. A default also may occur if the Borrowers or the Corporation are unable to comply with covenants or other provisions agreed to in connection with the issuance of the Series 2020 Bonds.

Risks Related to Infectious Viruses and/or Diseases

A novel coronavirus outbreak first identified in 2019 is causing coronavirus disease 2019 ("COVID-19"), which has been identified by the World Health Organization as a pandemic. Responses to COVID-19 have differed at the school, local, state, and national levels, although schools have been closed for various periods of time in many states and nations. The Centers for Disease Control and Prevention has provided guidance for school closures in the United States, and all Pennsylvania schools are required to prepare COVID-19 Health and Safety Plans for review and approval by the Pennsylvania Department of Education ("PDE"). The extent to which such measures remain necessary and the duration of any distance education or school closures cannot be determined or predicted at this time. In addition to school closures, the spread of COVID-19, among other causes, has created volatility in stock and bond markets in the United States and globally, which has affected the market for private activity bonds, like the Series 2020 Bonds, and which has affected or may affect the financial condition of the Commonwealth and federal governments. While the effects of COVID-19, including these lagging school-level and financial market-related indicators, cannot be determined or predicted at this time, the outbreak may have a materially adverse effect on the operations of the Corporation, on demand for the School's services, or on the Corporation's financial condition as a result of the foregoing, materially adverse changes in the financial condition of the Commonwealth or federal governments resulting in changes affecting funding of charter schools, or materially adverse changes in the public education marketplace in general. While the foregoing describes certain risks related to the coronavirus outbreak and COVID-19 ongoing in November 2020, the same types of risks may be associated with any contagious, epidemic, or pandemic disease. Any of the foregoing could have a material adverse effect on the ability of the Corporation to generate Gross Revenues sufficient to pay operating expenses and amounts due under the Leases and the Borrowers to generate revenues and Pledged Revenues sufficient to meet their obligations under the Agreement and the Master Indenture, respectively, in respect of debt service on the Series 2020 Bonds.

Under the Loan Agreement, if by reason of force majeure, a Borrower is unable to observe and perform any covenant, condition, or agreement on its part to be observed or performed under the Loan Agreement, other than (a) failure by Borrowers to pay the Loan Payments required to be paid under the Loan Agreement in respect of debt service on the Series 2020 Bonds when the same shall become due and payable, (b) failure by Borrowers to make payments into the Debt Service Reserve Fund required to be paid under the Loan Agreement when the same shall become due and payable, or (c) the occurrence of an "Event of Default" under any of the Indenture, the Series 2020 Bonds, the Leases, the Mortgages, the 2020 Note and the Master Indenture, beyond any applicable notice and grace period, such failure shall not be an Event of Default.

Under the Master Indenture, if the Members shall be delayed, hindered in or prevented from the performance of any act required thereunder by reason of force majeure (excluding specifically the payments due on any Obligations issued thereunder), then performance of such act shall be excused for the period of the delay and the period for the performance of any such act shall be extended for a reasonable period, in no event to exceed a period equivalent to the period of such delay.

Under each of the Lease Agreement, the Loan Agreement, and the Master Indenture, force majeure includes, *inter alia*, pandemics resulting in ordered closure of the Leased Property and loss, postponement, or delay in funding to the Corporation.

Limitations on School District Payments

The availability of any and all payments made to or on behalf of the Corporation, by the Commonwealth or the School District, which are permitted to be used by the Corporation for its operations in accordance with its Charter ("School District Payments") and the levels of expenses with respect to the operation of the School may affect the ability of the Corporation to generate Gross Revenues sufficient to pay operating expenses and amounts due under the Leases and the Borrowers to generate revenues and Pledged Revenues sufficient to meet their obligations under the Agreement and the Master Indenture, respectively, in respect of debt service on the Series 2020 Bonds. If sufficient funds are not generated from School District Payments, there can be no assurance that the Corporation will be able to operate the School successfully as a charter school and that the Borrowers will have sufficient revenues to pay debt service on the Series 2020 Bonds.

Revenues received by the Corporation from the Commonwealth and SDP are generated from tax revenues and non-tax revenues primarily consisting of a City grant to SDP, a contribution from the Philadelphia Parking Authority to SDP, gaming revenue to SDP, local property tax revenues and stadium agreements with SDP. The amounts budgeted for distribution from the Commonwealth are subject to change in the event that certain Commonwealth revenues are not realized. SDP currently receives reoccurring revenue from the Commonwealth in the form of a cigarette tax, which has an annual floor of \$58 million. SDP further stated it would also receive reoccurring revenues from new ridesharing fees, which were budgeted at \$3,150,000 in fiscal year 2020.

Nonrenewal or Revocation of Charter

Generally, charter schools across the nation have come under some criticism as having failed to meet certain objectives in educating students to a success level above students in traditional public school systems. Proponents of charter schools have indicated that comparisons used in such critiques often fail to measure performance between similarly situated schools or fail to acknowledge the time that will be required for a charter school to develop historically significant data. In any event, the politically sensitive issues surrounding the development of charter schools will continue to warrant public and media attention, and any development of a national sense that charter schools do not present a fiscally responsible alternative could adversely affect the willingness of states, including Pennsylvania, to fund charter school operations or the willingness of local or Commonwealth school officials to approve or renew school charters.

The primary source of revenues to the Corporation is expected to be School District Payments. SDP recommended approval of the School's charter renewal in 2019, but negotiations of a new charter contract between SDP and the School are currently ongoing. During negotiations, the School remains a public charter school in good standing under the Charter. Under Commonwealth law, the Charter remains in effect until a new Charter is approved and executed by both the School and SDP.

The Charter is subject to further renewal for additional periods. The Charter is subject to termination by SDP as set forth in the Charter or pursuant to the Charter School Law. SDP must revoke or not renew the Charter if it finds that the School: (i) violates one or more material conditions, standards or procedures set forth in the Charter; (ii) fails to meet the requirements for student performance set forth in 22 PA. Code Ch. 5 (relating to curriculum) or subsequent regulations established by PDE or failure to meet any performance standards set forth in the Charter Agreement; (iii) fails to meet generally accepted standards of fiscal management or audit requirements; (iv) violates the Charter School Law; (v) violates any other laws from which the charter school has not been exempted, including federal laws and regulations governing children with disabilities; or (vi) has been convicted of fraud.

SDP must notify the Corporation's governing body of any proposed termination in writing, stating the grounds for such termination, and provide the charter school with a public hearing before a decision is made. A decision by SDP to terminate a charter is subject to appeal. See APPENDIX D — "CHARTER SCHOOL LAWS AND FINANCING IN PENNSYLVANIA."

If the Charter is terminated or denied renewal, the Corporation would likely be forced to cease operations of the School as a charter school unless such decision was reversed on appeal. Pursuant to the Leases, the following constitutes an Event of Default thereunder: failure by the Corporation to maintain its Charter pursuant to the Charter School Law; provided, however, that if the Corporation (i) continues to operate as a charter school pursuant to the Charter School Law, (ii) continues to receive School District Payments or other funding and (iii) continues to pursue

a renewal of its charter or timely appeal of the termination of its charter in good faith, an Event of Default shall not be deemed to occur.

Changes in Law; Annual Appropriation; Inadequate School District Payments

The Pennsylvania General Assembly has amended the Charter School Law a number of times since it was first enacted in 1997. Past and future amendments to the law may adversely affect the School by, among other things, withholding a percentage of School District Payments if a charter school is deemed not to be in compliance with contract or charter provisions or Commonwealth and federal laws; by decreasing the charter term from five years to some other shorter term; by requiring a Commonwealth body to make an assessment of the school's effectiveness every year; by limiting the number of students for which Commonwealth funds are available; by mandating new facilities or programs which may increase costs beyond projections; by reducing the maximum amount payable by the Commonwealth for students enrolled by the School; by revising the relative responsibilities between public schools and the Commonwealth for financing schools (including charter schools); or by eliminating the authority for Commonwealth or local-supported charter schools.

Currently, School District Payments are partially determined by an enrollment-based formula. In addition, the Pennsylvania General Assembly appropriates certain funds for public education each year, and it may not appropriate sufficient funds to enable the Borrower to pay debt service on the Series 2020 Bonds and meet budgeted expenses. See APPENDIX D — "CHARTER SCHOOL LAWS AND FINANCING IN PENNSYLVANIA." Similarly, the Commonwealth allocation per student may be reduced or may not keep pace with expenses such that the aggregate School District Payments to the School are inadequate to allow the Borrower to pay debt service on the Series 2020 Bonds. If School District Payments are insufficient, the Borrower may be unable to make the Loan Payments as and when required.

Future changes to the Charter School Law by the Pennsylvania General Assembly could be adverse to the financial operations, prospects, and interests of the Corporation and the Borrowers and could adversely impact the security for the Series 2020 Bonds. There can be no assurance given that the Pennsylvania General Assembly will not in the future amend the Charter School Law in a manner that is adverse to the interests of the Corporation, the Borrowers, and Registered Owners of the Series 2020 Bonds.

Executive Actions

In August 2019, Governor Wolf tasked PDE with developing regulations to achieve the following: (i) allow school districts to limit student enrollment at charters that do not provide a high-quality, equitable education to students, (ii) require transparent charter school admission and enrollment policies that do not discriminate based on intellectual or athletic ability, race/ethnicity, gender, or disability, among other student characteristics, (iii) hold charter schools and their operators to the same transparency standards as school districts because they are public schools and receive more than \$1.8 billion in state and property tax dollars annually, (iv) require that charter school board of trustees and operating companies are free from conflicts of interest and prohibit them from making decisions that provide a financial benefit to themselves, friends, and/or family members, (v) require charter schools to use sound fiscal management, provide regular financial audits to state regulators, publicly bid contracts for supplies and services, use fair contracting practices, and engage their communities, (vi) provide greater oversight over charter school management companies, (vii) establish a model Commonwealth application to start a new charter school or renew an existing charter school that provides school districts with comprehensive information on how the school will be run and allow for rigorous analysis, (viii) establish a clear process that requires charters to accurately document their costs, (ix) prevent charters from over charging districts and taxpayers for the educational services they provide, (x) initiate a fee-for-service model to cover the department's costs associated with implementing the Charter School Law, and (xi) recoup taxpayer costs for services that PDE provides to charter schools when it reviews applications, processes millions of payments, and provides legal and administrative support. Specific changes imposed by Governor Wolf include charging charter schools a fee to settle disputes with school districts and charging cyber charter school applicants \$86,000 each to offset application review costs. There can be no assurance of any further action by the Governor or the Pennsylvania General Assembly with respect to the regulations to be developed in response to the foregoing, nor can there be any assurance as to the effect that one or more such regulations could have on the Corporation's operations, financial condition, or ability to produce Pledged Revenues sufficient to pay the Base Rent due under the Leases.

On February 4, 2020, Governor Wolf released his 2020-21 State budget plan, which includes a projected savings of \$280 million gained from proposed charter school funding reductions.

On May 29, 2020, Governor Wolf approved a budget that holds all major education spending at 2019-20 levels, but the budget will be revisited in November 2020 to address the effects of the COVID-19 pandemic.

See APPENDIX D – "CHARTER SCHOOL LAWS AND FINANCING IN PENNSYLVANIA – CHARTER SCHOOL FUNDING."

Competition for Students; School Choice Initiatives

The School is and will be competing with public schools, private schools and other charter schools for students living within the Commonwealth. Such competitors include cyber schools. There can be no assurance that the School will attract and retain the number of students sufficient to produce the revenues necessary to operate the School. As charter schools become more common, and as existing charter schools demonstrably provide an attractive educational choice, the number of charter schools may increase, leading to increased competition for existing charter schools. Further, demand for cyber schools, as opposed to brick and mortar schools like the School, may increase as a result of the COVID-19 pandemic described under the heading "Risks Related to Infectious Viruses and/or Diseases."

In addition, other education choice initiatives, including but not limited to the adoption of a general voucher plan, whereby the state or local school district provides a voucher (typically for a fixed dollar amount) which a student's parent can use to pay tuition at private, independent schools have been implemented or are being considered in a number of states. A voucher program could provide significant competition to the School by providing parents who could not otherwise afford tuition at a private, independent school, with resources to cover all or a portion of such costs. From time to time the Pennsylvania legislature has renewed efforts to create a voucher school program, but such attempts have so far been unsuccessful. Implementation of such a voucher program would likely increase demand for private, independent schools, possibly adversely affecting enrollment at other schools, including both public schools and charter schools. None of the Borrower or the Corporation can determine the specific impact the Commonwealth's implementation of a voucher program would have on the operation or financial performance of the Corporation.

Commonwealth of Pennsylvania Finances

Charter schools depend on revenues from the Commonwealth for a large portion of their operating budgets. The availability of Commonwealth funds for public education is a function of legal provisions affecting school district revenues and expenditures, the condition of the Commonwealth economy, and the annual budget process. Decreases in Commonwealth revenues may adversely affect education appropriations made by the Pennsylvania General Assembly. As noted, the Pennsylvania General Assembly bases its decisions about appropriations on many factors, including the state's economic performance, and, because some public officials, their constituents, commentators, and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding. See "RISK FACTORS — Changes in Law; Annual Appropriation; Inadequate School District Payments" above.

Charter school funding laws and processes in the Commonwealth are uncertain and no assurances can be made that such funding laws and processes will not materially adversely affect the ability of the Corporation to generate Gross Revenues sufficient to pay operating expenses and amounts due under the Leases and the Borrowers to generate revenues and Pledged Revenues sufficient to meet their obligations under the Agreement and the Master Indenture, respectively, in respect of debt service on the Series 2020 Bonds. See "CHARTER SCHOOL FUNDING – Calculation of Payments" below.

Funding for charter schools is addressed in Section 1725-A of the Pennsylvania Public School Code. Charter schools should receive for each student enrolled an amount paid by the district of residence of each student. This amount is based upon a statutory funding formula. There are separate funding formulas for non-special education students and for special education students. Payments shall be made to the charter school in twelve (12) equal monthly payments, by the fifth day of each month, within the operating school year. If a school district fails to pay the charter school, the charter school may request the Secretary of Education to redirect SDP's subsidy.

Like many states, the Commonwealth from time to time has experienced financial stress due to declining revenues. The adopted budget of the Commonwealth for fiscal year ending June 30, 2020 provides for \$33.9 billion and provides for a \$160 million increase for basic education funding and a \$50 million increase for special education funding. On February 4, 2020, Governor Wolf released his 2020-21 State budget plan, which includes a projected savings of \$280 million gained from proposed charter school funding reductions.

On May 29, 2020, Governor Wolf approved a budget that holds all major education spending at 2019-20 levels, but the budget will be revisited in November 2020 to address the effects of the COVID-19 pandemic.

See APPENDIX D – "CHARTER SCHOOL LAWS AND FINANCING IN PENNSYLVANIA – CHARTER SCHOOL FUNDING."

Financial pressure on the Commonwealth may lead to reductions in spending on public schools in the future, including charter schools. There can be no assurance that current levels of per pupil spending for public schools in the Commonwealth, including charter schools, will be maintained in future years.

Any future decreases in state revenues may adversely affect education appropriations made by the Pennsylvania General Assembly. The adverse effect may be exacerbated in the future to the extent that the Commonwealth relies in part on federal stimulus funding in the near term. None of the Borrowers, the Corporation, or any other party to the Series 2020 Bond transaction can predict how state income or state education funding will vary over the entire term of the Series 2020 Bonds. No parties to the Series 2020 Bond transaction take any responsibility for informing owners of the Series 2020 Bonds about any such changes. Information about the financial condition of the Commonwealth, as well as its budget and spending for education, is available and regularly updated on various Commonwealth-maintained websites. Such information is prepared by the respective Commonwealth entity maintaining each such website and not by any of the parties to this transaction. The parties to this transaction take no responsibility for the accuracy, completeness, or timeliness of such information and no such information is incorporated herein by these references.

Suitability of Investment

Purchase of the Series 2020 Bonds involves a significant degree of risk, and the Series 2020 Bonds are a speculative investment. Any investor who, because of financial condition, is unable to bear the loss of an investment in the Series 2020 Bonds, or who, because of investment policies or otherwise, does not desire to assume, or have the ability to bear, the risks inherent with an investment in the Series 2020 Bonds, should not purchase the Series 2020 Bonds. Prospective investors should carefully examine this Limited Offering Memorandum, including the appendices hereto, and their own financial condition, as well as consult their own independent legal and financial advisors, in order to make a judgment as to their ability to bear the economic risk of such an investment, and to determine whether or not the Series 2020 Bonds are an appropriate investment for them.

Reliance on Projections

Information contained herein concerning the Borrowers, the Corporation, and the School has been obtained from the Borrowers and the Corporation and has not been independently verified by the Authority or the Underwriter. Much of the information regarding the Borrowers, the Corporation, and the School involves predictions of future events, such as the ability of the School to increase student enrollment and to raise School District Payments to a level sufficient for the Corporation to generate Gross Revenues sufficient to pay operating expenses and amounts due under the Leases and the Borrowers to generate revenues and Pledged Revenues sufficient to meet their obligations under the Agreement and the Master Indenture, respectively, in respect of debt service on the Series 2020 Bonds. Such information is, by its nature, not subject to verification.

Projected enrollment for the School and forward looking financial projections for the Corporation are included in APPENDIX A - "GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE BORROWERS" and in APPENDIX C – "FINANCIAL PROJECTIONS OF THE CORPORATION." The forecasted information is based upon assumptions made by Management. There are usually differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. Neither the Authority nor the Underwriter has independently verified such projections, and make no representation nor give any assurance that such projections, or the assumptions underlying them, are

complete or correct. Further, the projections relate only to a limited number of fiscal years and consequently do not cover the entire period that the Series 2020 Bonds will be outstanding. Prospective investors in the Series 2020 Bonds should read the forecasted information in its entirety.

The forecasted information contains "forward-looking statements" and is subject to the general qualifications and limitations described under "Forward-Looking Statements" prior to the Table of Contents hereto. The Underwriter has not independently verified the forecasted information set forth herein, and makes no representations nor gives any assurances that such forecasted information, or the underlying assumptions, are complete or correct.

MANAGEMENT PREPARED THE FORECASTED INFORMATION BASED ON ASSUMPTIONS ABOUT FUTURE OPERATIONS OF THE CORPORATION, INCLUDING STUDENT ENROLLMENT AT THE SCHOOL, REVENUE, AND EXPENSES. THERE CAN BE NO ASSURANCE THAT ACTUAL ENROLLMENT WILL BE CONSISTENT WITH PRIOR ENROLLMENT OR THAT PROJECTED INCREASES IN ENROLLMENT WILL OCCUR AS PROJECTED. IN ADDITION, ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF INSUFFICIENT ENROLLMENT OR OTHERWISE), EMPLOYEE RELATIONS, CHANGES IN TAXES, CHANGES IN APPLICABLE GOVERNMENT REGULATIONS, CHANGES IN DEMOGRAPHIC TRENDS, CHANGES IN EDUCATION COMPETITION AND CHANGES IN LOCAL OR GENERAL ECONOMIC CONDITIONS. SEE "FINANCIAL PROJECTIONS" BELOW.

Compliance with Federal and State Accountability Requirements

In December 2015, the Every Student Succeeds Act ("ESSA") was signed into law, amending the Elementary and Secondary Education Act of 1965 and replacing the No Child Left Behind Act of 2001. The U.S. Department of Education approved the Commonwealth's ESSA state plan on January 16, 2018.

If the School fails to meet the requirements of ESSA or a revised state accountability system, it may adversely affect the ability of the Corporation to generate Gross Revenues sufficient to pay operating expenses and amounts due under the Leases, which may adversely affect the ability of the Borrowers to generate revenues and Pledged Revenues sufficient to meet their obligations under the Agreement and the Master Indenture, respectively, in respect of debt service on the Series 2020 Bonds.

Reputational Risk

The Borrowers, the Corporation, and the School are subject to reputational risks which may differ from those of other public alternative education schools, private charter or public schools. For example, changes in the reputation of a school, its faculty or student body, either generally or with respect to certain academic or extracurricular areas, may affect the School's ability to attract students to projected enrollment levels or the School's ability to attract quality faculty and staff at competitive salaries. Such changes in reputation may include, but are not limited to, those changes arising out of faculty or student behavior and actions within and outside of the school environment, including any media coverage and/or public discussion thereof. In addition, litigation brought against the Corporation, the School, or either Borrower by parents, civil authorities, students or former or potential employees may have a materially adverse impact on the reputation of such Borrower, the Corporation, or the School. There can be no assurance that these or other factors will not adversely affect the ability of the Corporation to generate Gross Revenues sufficient to pay operating expenses and amounts due under the Leases and the Borrowers to generate revenues and Pledged Revenues sufficient to meet their obligations under the Agreement and the Master Indenture, respectively, in respect of debt service on the Series 2020 Bonds.

Economic and Other Factors

Future economic and other factors may adversely affect the revenues and expenses of the Borrowers and the Corporation, and consequently, the ability of the Corporation to generate Gross Revenues sufficient to pay operating expenses and amounts due under the Leases and the Borrowers to generate revenues and Pledged Revenues sufficient to meet their obligations under the Agreement and the Master Indenture, respectively, in respect of debt service on the Series 2020 Bonds. Among the factors that could have such adverse effects are: decreases in the number of students seeking to attend the School at optimum levels for each grade level; decreases in the level of School District Payments

or other student enrollment-based funding by the Commonwealth; decline in the ability of the School and Management to provide education desired and accepted by the population served; economic developments in the affected service area, including inflation and interest rates; decline of the reputation of the School; competition from other educational institutions, including other charter schools and private schools; lessened ability of the School to attract and retain qualified teachers and staff at salaries that permit the Corporation to make payments due under the Leases and pay its expenses; increased costs associated with technological advances; changes in government regulation of the education industry or in the Charter School Law; future claims for accidents or other torts at the Facility or environmental enforcement actions with respect to environmental conditions at the Facility and the extent of insurance coverage for such claims; and the occurrence of natural disasters, such as floods.

Value of Property May Fluctuate; Limitations of Appraisals

Benchmark Appraisal Group, LTD (the "Appraiser") conducted appraisals for each Facility (collectively, the "Appraisals"), certain details of which are summarized in APPENDIX A - "GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE BORROWERS - THE PROJECT – Appraisals."

An appraisal represents only the opinion of the appraiser and only as of its date. There may be a difference between the actual value of the Facilities and the amount of the Series 2020 Bonds, and that difference may be material and adverse to Bondholders. In particular, it cannot presently be determined with certainty what the value of any Facility would be in the event of foreclosure under a Mortgage, especially in light of the fact that the Facilities are currently being used or will be used as a charter school. Further, the value of the Facilities at any given time will be directly affected by market and financial conditions which are not in the control of the parties involved in the Series 2020 Bond transaction. Real property values can fluctuate substantially depending on a variety of factors. There is nothing associated with the Facilities to suggest that their value would remain stable or would not decrease if the general values of the property in the area of the Facilities were to decline.

Inability to Liquidate or Delay in Liquidating the Facility

An event of default under a Mortgage gives the Master Trustee the right to possession of, and the right to sell the Facility pursuant to a foreclosure sale under such Mortgage. The Facility is intended to be used solely for educational purposes of the Borrowers and the Corporation. Because of such use, a potential purchaser of the Series 2020 Bonds should not anticipate that a transfer of the Facility could be accomplished rapidly, or at all. Any sale of the Facility would require compliance with the laws of the Commonwealth applicable thereto. Such compliance might be difficult, time-consuming and expensive. Any delays in the ability of the Bond Trustee to foreclose on a Mortgage would result in delays in the payment of the Series 2020 Bonds.

The Facility is designed for use as a school facility and may not be readily adaptable to other uses. As a result, in the event of a sale of the Facility, the number of uses that could be made of the property, and the number of entities which would be interested in purchasing the Facility, could be limited, and the sale price could thus be adversely affected. The location of the Facility might also limit the number of potential purchasers. The ability of the Master Trustee to sell the Facility to third parties, thereby liquidating the investment, would be limited as a result of the nature of the Facility. For these reasons, no assurance can be made that the amount realized upon any sale of the Facility would be fully sufficient to pay and discharge the Series 2020 Bonds. In particular, there can be no representation that the cost of the property included in the Facility would constitute a realizable amount upon any forced sale thereof. In the event the Master Trustee took possession of the Facility, the Facility might be subject to real property taxation.

Results of Certain Events of Default under the Agreement or the Master Indenture

A potential purchaser of the Series 2020 Bonds should not assume that it will be possible to obtain proceeds from the foreclosure of a Mortgage and the sale of the Facility after an Event of Default (as defined in the Agreement and the Master Indenture) and a foreclosure of a Mortgage for an amount equal to the aggregate principal amount of the Series 2020 Bonds then outstanding plus accrued interest thereon. If the Facility is sold pursuant to a foreclosure sale under a Mortgage (and there is no assurance that there would be any purchaser upon a foreclosure sale) for an amount less than the aggregate principal amount of and accrued interest on the Series 2020 Bonds, such partial payment may be the only payment to the Holders; upon such a partial payment, no holder of any Series 2020 Bonds

shall have any further claim for payment upon the Bond Trustee, the Master Trustee, the Authority, or any other party or entity other than the Borrowers and the Corporation.

Subordination of Management Company Payments; Term of String Theory Agreements

In each Lease, the Corporation agrees and acknowledges that payment of any and all management fees by it to any management company is subordinate to the payment of Base Rent and Additional Rent thereunder sufficient to pay debt service on the 2020 Note. Any management company to be retained by the Corporation must agree in writing to such subordination. While the String Theory Agreements comply with the foregoing requirement, each of the String Theory Agreements expires according to its terms prior to the final maturity of the Series 2020 Bonds. The Corporation relies on String Theory for all aspects of operation of the School. In the event either String Theory Agreement expires or is terminated in accordance with its terms, the Corporation would be forced to contract with another management company for operation and management of the related School, or assume such management itself. In the event either String Theory Agreement expires or is terminated in accordance with its terms, there can be no assurance that the Corporation would be able to contract with another qualified charter school manager in a timely manner and on terms that reflect subordination of payment of management fees as required by the Leases.

Litigation

Educational facilities often are the subject of litigation. Professional liability and other actions alleging wrongful conduct and seeking punitive damages often are filed against education providers such as the Corporation and the School. Litigation may also arise from the corporate and business activities of the Borrowers, the Corporation, and the School, such as contract disputes and employee-related matters. Many of these risks are covered by insurance, but some are not. For example, some business disputes and workers' compensation claims are not covered by insurance or other sources and, in whole or in part, may be a liability of a Borrower or the School if determined or settled adversely. Although the Borrowers and the Corporation maintain insurance policies covering educator's professional and general liability, as applicable, management of the Borrowers and the Corporation are unable to predict the availability, cost or adequacy of such insurance in the future.

Tax Related Issues

Bond Audits. The Series 2020 Bonds may be, from time to time, subject to audit by the Internal Revenue Service (the "IRS"). Each Borrower believes, based on the opinion of Bond Counsel, that the Series 2020 Bonds properly comply with applicable tax laws. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Series 2020 Bonds, as described under the caption "TAX MATTERS" herein, which opinion speaks only as of its date. No ruling with respect to the tax-exempt status of the Series 2020 Bonds has been or will be sought from the IRS, however, and opinions of counsel are not binding on the IRS or the courts and are not guarantees. There can be no assurance that an audit of the Series 2020 Bonds will not adversely affect the tax status of the Series 2020 Bonds.

Tax-Exempt Status of Interest on the Series 2020 Bonds. The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2020 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Series 2020 Bond proceeds, limitations on the investment earnings of Series 2020 Bond proceeds prior to expenditure, a requirement that certain investment earnings on Series 2020 Bond proceeds be paid periodically to the United States and a requirement that the Authority file an information report with the IRS. The Authority, each Borrower, and the Corporation have covenanted in certain of the documents referred to herein that they will comply with such requirements. Failure by any of the foregoing to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Series 2020 Bonds as taxable, retroactively to the Closing Date. Additionally, as the pressure to reduce the federal deficit and balance the federal budget increases, limiting or even eliminating the general exclusion of state and local bond interest has been considered from time to time. Any such limitation or elimination, if retroactive, would result in some or all of the interest on the Series 2020 Bonds being included in gross income of owners of the Series 2020 Bonds for federal income tax purposes and could adversely affect the market value of the Series 2020 Bonds.

Maintenance of Tax-Exempt Status by each Borrower and the Corporation. The tax-exempt status of the Series 2020 Bonds depends upon the maintenance by each Borrower and the Corporation of its status as an

organization described in Section 501(c)(3) of the Code. 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 the operation for charitable and educational purposes and avoidance of transactions which may cause the assets of either to inure to the benefit of private individuals.

In recent years, the IRS has increased the frequency and scope of its audit and other enforcement activity regarding tax-exempt organizations and, in particular, charter schools. As a result, tax-exempt organizations are increasingly subject to a greater degree of scrutiny. The primary penalty available to the IRS under the Code with respect to a tax-exempt entity violating applicable provisions of the Code and regulations is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit corporations, it could do so in the future. Loss of tax-exempt status by either Borrower or the Corporation could potentially result in loss of tax exemption of interest on the Series 2020 Bonds and of other existing and future tax-exempt debt of such Borrower and the Corporation, if any, and defaults in covenants regarding the Series 2020 Bonds and other existing and future tax-exempt debt, if any, would likely be triggered.

Legislation adopted by Congress in 1996 provides the IRS with an "intermediate" sanctions system of federal excise taxes to combat violations by tax-exempt organizations of the private inurement prohibition of the Code. Before the "intermediate sanctions law," the IRS could punish such violations only through revocation of an entity's tax-exempt status. Intermediate sanctions may be imposed where there is an "excess benefit transaction," defined to include a disqualified person (i.e., an insider) (i) engaging in a non-fair market value transaction with the tax-exempt organization, (ii) receiving unreasonable compensation from the tax-exempt organization, or (iii) receiving payment in an arrangement that violates the private inurement proscription. Intermediate sanctions may be imposed by the IRS either in lieu of or in addition to revocation of exemption. The legislation is potentially favorable to taxpayers in that it provides the IRS with a punitive option short of exemption revocation to deal with incidents of private inurement. However, the standards for tax exemption have not been changed and the IRS still has the authority to revoke tax-exempt status in appropriate circumstances.

State Income Tax Exemption. The loss by either Borrower or the Corporation of federal tax exemption might trigger a challenge to its Commonwealth income tax exemption. Such event could be adverse and material to holders of the Series 2020 Bonds.

Unrelated Business Income. In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their exempt activities and the generation of unrelated business taxable income ("UBTI"). The Borrowers and the Corporation currently report no UBTI. Either Borrower and/or the Corporation may in the future participate in activities which generate UBTI. If so, such Borrower and the Corporation are required to properly account for and report UBTI; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect their tax-exempt status, as well as the exclusion from gross income for federal income tax purposes of the interest on the Series 2020 Bonds.

Exemption from Property Taxes. In recent years, the Commonwealth, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt corporations with respect to their real property tax exemptions. The Facility is currently exempt from real property taxation, other than with respect to certain tax on unrelated business income; however, each Borrower will be required to maintain such exempt status.

Tax Reform

From time to time there are legislative proposals in the United States Congress and the Commonwealth Legislature that, if enacted, could alter or amend the federal and Commonwealth income tax matters with respect to the Series 2020 Bonds, adversely affect the market value or liquidity of the Series 2020 Bonds or impact how the Commonwealth funds public schools, including charter schools. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment or the status of tax exempt entities. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value or liquidity of the Series 2020 Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular lawsuit will be resolved, or whether the Series 2020 Bonds or the market value or

liquidity thereof would be impacted thereby. Purchasers of the Series 2020 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation.

Purchasers of the Series 2020 Bonds should be aware that future legislative actions (including federal income tax reform) may retroactively affect such investors' federal, state or local tax liability. In all such events, the market value of the Series 2020 Bonds may be impacted and the ability of holders to sell the Series 2020 Bonds in the secondary market may be reduced.

Bankruptcy — In General

Bankruptcy or other insolvency or similar proceedings affecting either Borrower or the Corporation may delay and otherwise adversely affect the enforcement of rights in the property granted as security for the obligations related to the Series 2020 Bonds, including those granted by the Indenture, the Agreement, the Leases, the Master Indenture, and the Mortgages. For example, if a Borrower became a debtor in bankruptcy proceedings under Federal bankruptcy law, those proceedings would stay any proceeding to foreclose the lien of its respective Mortgage pending further order of the bankruptcy court, and could affect the Master Trustee's ability to obtain direct payments pursuant to the Indenture. If such Borrower's obligations in connection with the Series 2020 Bonds exceeded the value of the collateral security for the Obligations, then in Federal bankruptcy proceedings, the recovery for the Bondholders might be limited to the value of that collateral. In such a bankruptcy proceeding, a reorganization plan containing provisions, for example, backloading loan or bond payment amounts on the Series 2020 Bonds, could be confirmed and become effective even if the plan were not supported by some or all of the holders of the Series 2020 Bonds.

Renovation Risks

After the Closing Date, DeMedici expects to enter into a contract pursuant to which the Renovation Project will be completed. While such contract has not been entered into, DeMedici has not obtained permits or approvals for the Renovation Project, and there can be no assurance that the Renovation Project will be completed timely or for the cost budgeted by Management, Management does not expect any delay or costs overrun in the Renovation Project to have a material adverse effect on the Corporation or the School because the Renovation Project is limited to spaces that are not currently used for operations of the School, is expected to be conducted while School is not in session, and is capable of completion from funds the Corporation has on hand if the cost budgeted by Management is exceeded. The Facility at which the Renovation Project will occur has asbestos-containing materials ("ACMs") and lead-based paint ("LBP"). See APPENDIX A - "GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE BORROWERS - THE PROJECT – Environmental Reports." If either ACMs or LBP are located where the Renovation Project will occur, remediation thereof may increase the cost or delay the completion of the Renovation Project. The scope of any necessary remediation cannot be predicted. To the extent ACMs or LBP are identified and would be disturbed by the Renovation Project, the Borrowers and the School will ensure that all ACMs and LBP are removed according to the applicable regulations and recommendations of the Consultant and the contractor undertaking the Renovation Project.

Limitations on Value of the Facility and to Remedies under the Mortgages

General. Development, ownership, and operation of real estate involves certain risks, including the risk of adverse changes in general economic and local conditions, including population decreases; uninsured losses; operating deficits and mortgage foreclosure; lack of attractiveness of the property to students/parents; cyclical nature of the real estate market; adverse changes in neighborhood values; and adverse changes in zoning laws, other laws and regulations, and real property tax rates (to the extent such taxes are applicable to the Facility). Such losses also include the possibility of fire or other casualty or condemnation. If the Facility or any portion thereof, were not available during the period of restoration, this could adversely affect the ability of the Borrowers to generate sufficient Pledged Revenues to meet their obligations under the Agreement and the Master Indenture. Changes in general or local economic conditions and changes in interest rates and the availability of mortgage funding may render the sale or refinancing of the Facility difficult or unattractive.

Damage Destruction or Condemnation. The Borrowers are required under the Master Indenture and the Mortgages and the Corporation is required under the Leases to cause the Facility to be insured against loss or damage to the Facility and all improvements therein (including, during any period of time when the Corporation is making alterations, repairs or improvements to the Facility, improvements and betterment's 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 greater of the full replacement value of the buildings on the Facility or the aggregate principal amount of the Notes then Outstanding, unless the insurable full replacement value of the buildings on the Facility is less than the aggregate principal amount of the Notes Outstanding, in which event, in an amount equal to the full replacement value of such buildings. There is no assurance, however, that such amount will be adequate to repair and replace lost, damaged, or destroyed property constituting part of the Facility, or that insurance will be available at commercially-reasonable rates in the near or long-term future, or that moneys made available by reason of any such occurrence will be sufficient to fully redeem the Series 2020 Bonds or replace such property.

If the Facility, or any portion thereof, is damaged or destroyed, or is taken in a condemnation proceeding, the proceeds of insurance or any such condemnation award shall be applied as provided in the Mortgages to restore or rebuild the Mortgaged Property that is damaged or destroyed or to redeem Obligations. There can be no assurance that the amount of revenues available to restore or rebuild the Mortgaged Property that is damaged or destroyed, or any portion thereof, or to redeem Series 2020 Bonds will be sufficient for that purpose, or that any remaining portion of the Borrowers' facilities will generate Pledged Revenues sufficient to permit the Borrowers to meet their obligations under the Agreement and the Master Indenture.

Environmental Risks. The Facility and any other properties the Borrowers may acquire and own are and will be subject to various federal, state, and local laws and regulations governing health and the environment. In general, these laws and regulations could result in liability for remediating adverse environmental conditions on or relating to the Facility or such other properties, whether arising from pre-existing conditions or conditions arising as a result of activities conducted in connection with the ownership of and operations at the Facility or such other properties. Costs incurred with respect to environmental remediation or liability could adversely affect the Borrowers' financial condition and the ability to generate revenues sufficient to permit the Borrowers to meet their obligations under the Agreement and the Master Indenture.

Duffield Associates, Inc. (the "Consultant") conducted Phase I Environmental Site Assessments of the Facilities and summarized its findings in reports thereof (the "Phase I Reports" and each a "Phase I Report"), certain information about which, including descriptions of recognized environmental conditions and certain asbestos, lead-based paint, and drinking water considerations identified in connection with the Facilities, is set forth in APPENDIX A - "GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE BORROWERS - THE PROJECT – Environmental Reports."

The Borrowers and the School believe that the presence of ACMs, LBP, and lead coatings in certain of the Facilities is controlled and does not pose a risk to students or staff during day-to-day operations of the School. To the extent ACMs or LBP are identified and would be disturbed by the Renovation Project, the Borrowers and the School will ensure that all ACMs and LBP are removed according to the applicable regulations and recommendations of the Consultant and the contractor undertaking the Renovation Project.

There are potential risks relating to liabilities for environmental hazards with respect to the ownership of any real property. If hazardous substances are found to be located on a property, owners of such property may be held liable for costs and other liabilities related to the removal of such substances, which costs and liabilities could exceed the value of the Facility or any portion thereof. In the event environmental enforcement actions were initiated, a Borrower could be liable for the costs of removing or otherwise treating pollutants or contaminants located at the site, or any portion thereof. In addition, under certain environmental statutes, in the event an enforcement action is initiated, a lien could be attached to the Facility, or a portion thereof, that would adversely affect the Borrowers' ability to generate revenues from the operation of the Facility, or any other properties, or otherwise sufficient to meet their obligations under the Agreement and the Master Indenture. In the event of a foreclosure on a Mortgage, the Borrowers may be held liable for costs and other liabilities relating to hazardous substances, if any, on the Facility or any portion thereof, on a strict-liability basis and such costs might exceed the value of such property.

Enforcement of the Pledges of Pledged Revenues and Gross Revenues

The effectiveness of the security interest in the Pledged Revenues granted by the Borrowers in the Master Indenture may be limited by a number of factors, including: (i) the absence of an express provision permitting

assignment of receivables owed to either Borrower under its contracts, and present or future prohibitions against assignment contained in any applicable statutes or regulations; (ii) certain judicial decisions which cast doubt upon the right of the Master Trustee, in the event of the bankruptcy of either Borrower, to collect and retain accounts receivable from certain governmental programs; (iii) commingling of the proceeds of Pledged Revenues with other moneys of either Borrower not subject to the security interest in Pledged Revenues; (iv) statutory liens; (v) rights arising in favor of the United States of America or any agency thereof; (vi) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (vii) federal bankruptcy laws or state insolvency which may affect the enforceability of either of the Mortgages or the security interest in the Pledged Revenues which are earned by either Borrower within 90 days preceding or, in certain circumstances with respect to related corporations, within one year preceding and after any effectual institution of bankruptcy proceedings by or against either Borrower; (viii) rights of third parties in Pledged Revenues converted to cash and not in the possession of the Master Trustee; (ix) rights of third parties in Pledged Revenues resulting from the incurrence of additional Indebtedness; and (x) claims that might arise if appropriate financing or continuation statements are not filed or other documents are not executed in accordance with the Pennsylvania Uniform Commercial Code as from time to time in effect.

The effectiveness of the security interest in the Gross Revenues granted by the Corporation in the Leases may be limited by a number of factors, including: (i) the absence of an express provision permitting assignment of receivables owed to the Corporation under its contracts, and present or future prohibitions against assignment contained in any applicable statutes or regulations; (ii) certain judicial decisions which cast doubt upon the right of the Bond Trustee, in the event of the bankruptcy of the Corporation, to collect and retain accounts receivable from certain governmental programs; (iii) commingling of the proceeds of Gross Revenues with other moneys of the Corporation not subject to the security interest in Gross Revenues; (iv) statutory liens; (v) rights arising in favor of the United States of America or any agency thereof; (vi) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (vii) federal bankruptcy laws or state insolvency which may affect the enforceability of the Mortgage or the security interest in the Gross Revenues which are earned by the Corporation within 90 days preceding or, in certain circumstances with respect to related corporations, within one year preceding and after any effectual institution of bankruptcy proceedings by or against the Corporation; (viii) rights of third parties in Gross Revenues converted to cash and not in the possession of the Bond Trustee; (ix) rights of third parties in Gross Revenues resulting from the incurrence of additional Indebtedness; and (x) claims that might arise if appropriate financing or continuation statements are not filed or other documents are not executed in accordance with the Pennsylvania Uniform Commercial Code as from time to time in effect.

There exists, in addition to the foregoing, common law authority and authority under Commonwealth statutes pursuant to which Commonwealth courts may terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purpose or has taken some action which renders it unable to carry out such purpose. Such court action may arise on the court's own motion pursuant to a petition of the Pennsylvania Attorney General or such other person(s) who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable use.

Additional Indebtedness

At the time of issuance of the Series 2020 Bonds, there will be no other long-term indebtedness of either Borrower or the Corporation.

Under certain circumstances, the Borrowers and the Corporation may incur additional indebtedness, including indebtedness on parity with the Series 2020 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS – The Agreement," " – The Master Indenture," and " – The Leases." If any Member or the Corporation incurs additional indebtedness, the Pledged Revenues of the Borrowers available to pay for the Series 2020 Bonds are limited and may be inadequate to timely pay for and discharge the indebtedness with respect to the Series 2020 Bonds. See APPENDIX E — "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS."

Other Limitations on Enforceability of Remedies

There exists common law authority and authority under various state statutes pursuant to which courts may terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that the corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court's own motion or pursuant to a petition of a state attorney general or other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

In addition to the foregoing, the realization of any rights under the Indenture, the Agreement, the Leases, the Master Indenture, and the Mortgages upon a default depends upon the exercise of various remedies specified in the Indenture, the Agreement, the Leases, the Master Indenture, and the Mortgages. These remedies may require judicial action which is often subject to discretion and delay. Under existing law, certain of the remedies specified in the Indenture, the Agreement, the Leases, the Master Indenture, and the Mortgages may not be readily available or may be limited. For example, a court may decide not to order the specific performance of the covenants contained in the Indenture, the Agreement, the Leases, the Master Indenture, or the Mortgages. Accordingly, the ability of the Authority, the Bond Trustee, or the Master Trustee to exercise remedies under the Indenture, the Agreement, the Leases, the Master Indenture, or the Mortgages upon an Event of Default could be impaired by the need for judicial or regulatory approval.

Failure to Provide Ongoing Disclosure

DeMedici, on its own behalf and on behalf of the Members of the Obligated Group as the Obligated Group Representative, and the Corporation will enter into a Continuing Disclosure Agreement in connection with the issuance of the Series 2020 Bonds. Failure to comply with the Continuing Disclosure Agreement in the future may adversely affect the liquidity of the affected Series 2020 Bonds and their market price in the secondary market. Failure to comply with continuing disclosure requirements may also make it more difficult or expensive for any Member or the Corporation to market and sell future bonds. See "CONTINUING DISCLOSURE" herein and APPENDIX G — "SUBSTANTIALLY FINAL FORM OF CONTINUING DISCLOSURE AGREEMENT."

Teacher Shortage

The Commonwealth, and in particular urban areas such as the City, have faced in the past, are currently facing and may face in the future, a teacher shortage. Between the 2012-13 and 2018-19 school years, the number of Level I instructional certificates issued in Pennsylvania has dropped by 74%. To help remedy this problem, Governor Wolf has proposed, in his 2020-21 budget proposal, raising Pennsylvania's minimum educator salary from \$18,500 to \$45,000 per year. During a teacher shortage, the Corporation may have to pay increased salaries or incur increased costs in recruiting new teachers. Teacher salaries and benefits are significant operating expenses for the Corporation and increases in such expenses may adversely affect the Corporation's financial condition and its ability to produce Gross Revenues sufficient to pay the amounts due under the Leases, decreasing the amount of revenues of the Borrowers available to meet their obligations under the Agreement and the Master Indenture.

Risk of Unionization

No employees of the Corporation currently are unionized. Should teachers or staff of the Corporation become unionized, contractual terms with the unions could adversely affect the operational flexibility of the Corporation and/or increase such entity's expense structure, any of which could adversely affect the Corporation's financial condition and its ability to produce Gross Revenues sufficient to pay the amounts due under the Leases, thus adversely impacting the Borrowers' ability to meet their obligations under the Agreement and the Master Indenture.

Key Personnel

The Corporation's creation, curriculum, educational philosophy and operations have depended on the vision and commitment of a few, key personnel who comprise the administrative staff and Management. Loss of any such key personnel could adversely affect the Corporation's operations, the School's ability to attract and retain students, and the Corporation's financial results. For more information regarding the Corporation's key personnel, see

APPENDIX A - "GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE BORROWERS."

Campus Security

Schools are generally subject to risks related to campus security, including but not limited to bullying, abuse, and, in extreme cases, physical violence. While the Borrowers and the Corporation believe that the Facility constitutes a secure campus, instances of breaches of campus security in the future may have a materially adverse effect on the operations of the Corporation or the Borrowers', the Corporation's, or the School's reputation, and may result in litigation, any of which could adversely affect the Corporation's financial condition and its ability to produce Gross Revenues sufficient to pay the amounts due under the Leases.

Cyber Security

Each of the Borrowers', the Corporation's, and the School's services and systems may be critical to operations or involve the storage, processing and transmission of sensitive data, including valuable intellectual property, other proprietary or confidential data, regulated data and personal information of employees, students and others. Successful breaches, employee malfeasance, or human or technological error could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of the Borrowers', the Corporation's, the School's, or other third party data or systems; theft of sensitive, regulated, or confidential data including personal information and intellectual property; the loss of access to critical data or systems; service or system disruptions or denials of service.

Compliance with Securities Laws

There is no guarantee that a secondary trading market will develop for the Series 2020 Bonds. Consequently, prospective bond purchasers should be prepared to hold their Series 2020 Bonds to maturity or prior redemption. Subject to applicable securities laws and prevailing market conditions, the Underwriter intends but is not obligated to make a market in the Series 2020 Bonds.

Rating on the Series 2020 Bonds

There is no assurance that the rating assigned to the Series 2020 Bonds will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for, and marketability of, the Series 2020 Bonds. See "RATING" herein.

Conclusion; Limited Offering

AN INVESTMENT IN THE SERIES 2020 BONDS INVOLVES A SIGNIFICANT DEGREE OF RISK, INCLUDING THE RISK OF NON-PAYMENT OF PRINCIPAL AND INTEREST, AND EACH PROSPECTIVE INVESTOR SHOULD CONSIDER ITS FINANCIAL CONDITION AND THE RISKS INVOLVED TO DETERMINE THE SUITABILITY OF INVESTING IN THE SERIES 2020 BONDS.

Each prospective investor should carefully examine this Limited Offering Memorandum, the appendices hereto, and such investor's own financial condition in order to make a judgment as to whether the Series 2020 Bonds are an appropriate investment for such investor.

THE FOREGOING STATEMENTS REGARDING CERTAIN RISKS ASSOCIATED WITH THE OFFERING SHOULD NOT BE CONSIDERED AS A COMPLETE DESCRIPTION OF ALL RISKS TO BE CONSIDERED IN THE DECISION TO PURCHASE THE SERIES 2020 BONDS.

LEGAL MATTERS

General

All legal matters incident to the authorization, issuance, sale and delivery of the Series 2020 Bonds by the Authority are subject to the approving opinion of Ballard Spahr LLP, Cherry Hill, New Jersey, Bond Counsel, whose approving opinion will be delivered with the Series 2020 Bonds, and the proposed form of which is set forth in APPENDIX F – "PROPOSED FORM OF BOND COUNSEL OPINION." The legal opinion delivered may vary from

that form if necessary to reflect facts and law on the date of delivery. Certain legal matters will be passed upon by Sand & Saidel, P.C., Philadelphia, Pennsylvania, as counsel to the Borrowers and the Corporation, and by Turner Law, P.C., Philadelphia, Pennsylvania, as counsel to the Authority, and by Ice Miller LLP, Columbus, Ohio, as counsel to the Underwriter.

The various legal opinions to be delivered concurrently with the delivery of the Series 2020 Bonds will speak only as of their dates of delivery and will be qualified in certain customary respects, including as to the enforceability of the various legal instruments by limitations imposed by state and federal law affecting remedies and by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, the application of equitable principles and the exercise of judicial discretion in appropriate cases the legal opinions express the professional judgment of counsel rendering them, but are not binding on any court or other governmental agency and are not guarantees of a particular result.

Pending and Threatened Litigation

No Proceedings Against the Borrowers or the Corporation. In connection with the issuance of the Series 2020 Bonds, each of DeMedici, DeMedici II, and the Corporation hereby represent that (and will deliver a certificate or certificates which will state that, as of the date of issuance of the Series 2020 Bonds), there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body pending or, to the best of its knowledge, threatened against or affecting either Borrower or the Corporation wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Indenture, the Agreement, the Leases, the Master Indenture, the 2020 Note, the Mortgages, the Subordination Agreements, the Charter, the String Theory Agreement, the Continuing Disclosure Agreement, the Bond Purchase Agreement, or this Limited Offering Memorandum, the validity and enforceability of any of the foregoing documents or the Series 2020 Bonds or the operations (financial or otherwise) of such Borrower or the Corporation.

No Proceedings Against the Authority. In connection with the issuance of the Series 2020 Bonds, the Authority hereby represents that (and will deliver a certificate or certificates which will state that, as of the date of issuance of the Series 2020 Bonds), there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body pending or, to the best of its knowledge, threatened against the Authority restraining or enjoining the issuance or delivery of the Series 2020 Bonds or questioning or affecting the validity of the Series 2020 Bonds or the proceedings or Authority under which they are to be issued, or in any manner questioning the right of the Authority to enter into the Indenture or Agreement or to issue and secure the Series 2020 Bonds in the manner provided in the Indenture and the Agreement.

TAX MATTERS

Federal Tax Exemption

In the opinion of Ballard Spahr LLP, Bond Counsel, interest on the Series 2020 Bonds is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the Series 2020 Bonds, assuming the accuracy of the certifications of the Authority, each Borrower, and the Corporation and continuing compliance by the Authority, each Borrower, and the Corporation with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2020 Bonds is not an item of tax preference for purposes of federal alternative minimum tax. Bond Counsel expresses no opinion regarding other federal tax consequences relating to ownership or disposition of, or the accrual or receipt of interest on, the Series 2020 Bonds.

Original Issue Premium

The Series 2020 Bonds were offered at a premium ("original issue premium") over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a Series 2020 Bond through reductions in the bondholder's tax basis for the Series 2020 Bond for determining taxable gain or loss upon sale or redemption prior to maturity. Amortization of premium does not create a deductible expense or loss. Bondholders should consult their tax advisers for an explanation of the amortization rules.

State Tax Exemption

Bond Counsel is also of the opinion that the interest on the Series 2020 Bonds is exempt from Commonwealth personal income tax and Commonwealth corporate net income tax, under the laws of the Commonwealth of Pennsylvania as enacted and construed on the date of delivery of the Series 2020 Bonds.

Bond Counsel will express no opinion regarding other state or local tax consequences arising with respect to the Series 2020 Bonds, including whether interest on the Series 2020 Bonds is exempt from taxation under the laws of any jurisdiction other than the Commonwealth of Pennsylvania.

General

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2020 Bonds, and Bond Counsel will not express any opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete; holders of the Series 2020 Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

CONTINUING DISCLOSURE

DeMedici, on its own behalf and on behalf of the Members of the Obligated Group as the Obligated Group Representative, and the Corporation will enter into and deliver a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with respect to the Series 2020 Bonds. The Continuing Disclosure Agreement is made for the benefit of the registered and beneficial owners of the Series 2020 Bonds. See APPENDIX G – "SUBSTANTIALLY FINAL FORM OF CONTINUING DISCLOSURE AGREEMENT."

In connection with the issuance of the Refunded Bonds, the Borrowers and the Corporation entered into a continuing disclosure agreement, which required certain annual financial and operating information, certain quarterly financial information, certain enrollment and waiting list information, and certain construction project information to be provided for the benefit of the registered and beneficial owners of the Refunded Bonds (the "Refunded Bonds Reporting Requirements"). Officers' certificates stating coverage ratio and liquidity covenant calculations were among the Refunded Bonds Reporting Requirements but were not provided for the fiscal year ended June 30, 2015, and for the fiscal years ended June 30, 2015, and 2016, respectively. A no default certificate required by the indenture pursuant to which the Refunded Bonds were issued was filed late for the fiscal year ended June 30, 2018. Quarterly reports of certain financial information and enrollment and waiting list information were among the Refunded Bonds Reporting Requirements but were either not provided, provided late, or partially provided for six of the fiscal quarters from March 31, 2016, through March 31, 2019.

Pursuant to the Continuing Disclosure Agreement, DeMedici and the Corporation will, for the benefit of the beneficial owners of the Series 2020 Bonds, compile and deliver certain financial information and operating data relating to the operations of the Corporation and each Member in annual reports, quarterly officer's reports, interim officer's reports and provide notices of the occurrence of certain enumerated events.

A failure by DeMedici or the Corporation to comply with the Continuing Disclosure Agreement will not constitute a default under the Indenture, the Agreement, the Leases, or the Master Indenture, and beneficial owners of the Series 2020 Bonds are limited to the remedies described in the Continuing Disclosure Agreement. A failure by the Borrowers or the Corporation to comply with the Continuing Disclosure Agreement will be reported as therein described. Consequently, any failure may adversely affect the transferability and liquidity of the Series 2020 Bonds and their market price.

In order to ensure compliance with the Continuing Disclosure Agreement, DeMedici and the Corporation have engaged Digital Assurance Certification, LLC ("DAC"), as dissemination agent thereunder. DAC provides its clients with automated filing of rating events, templates consolidating all outstanding filing requirements that accompany reminder notices of annual or interim mandatory filings, review of all template filings by professional

accountants, as well as a time and date stamp record of each filing along with the unique ID from EMMA accompanying the copy of the actual document filed. DAC also offers its clients a series of training webinars each year qualified for 10-15 NASBA certified CPE credits, as well as model secondary market compliance policies and procedures.

FINANCIAL STATEMENTS

The audited financial statements of the Corporation for the Fiscal Years ended June 30, 2017, 2018, and 2019, included in this Limited Offering Memorandum in APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION FOR THE FISCAL YEARS ENDED JUNE 30, 2017, 2018, AND 2019," have been audited by Zelenofske Axelrod LLC, Jamison, Pennsylvania (the "Auditor"), to the extent and for the period indicated in its reports thereon. Such financial statements have been included in reliance upon the reports of the Auditor. The Corporation is not aware of any facts that would make such financial statements misleading. These financial statements were prepared using the standards applicable to nonprofit entities. The audited financial statements included in APPENDIX B are an integral part hereof and should be read in their entirety.

Certain unaudited financial statements of the Corporation for the fiscal year ended June 30, 2020 are provided herein. Such unaudited financial statements have been prepared by Management and have not been examined or reviewed by the Auditor or any other independent certified public accountant. See APPENDIX A – "GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE BORROWERS – CERTAIN FINANCIAL INFORMATION."

FINANCIAL PROJECTIONS

The Corporation's projections of revenues and expenses for the fiscal years ended June 30, 2021 through 2025 contained in APPENDIX C – "FINANCIAL PROJECTIONS OF THE CORPORATION" (the "Projections") were prepared by Management in consultation with the Business Manager, and have not been independently verified by any other party. See "RISK FACTORS – Reliance on Projections."

RATING

S&P Global Ratings, a division of S&P Global ("S&P"), assigned a rating of "BB+" to the Series 2020 Bonds. Such rating reflects only the view of S&P and an explanation of the significance of such rating may be obtained from S&P. The rating is not a recommendation to buy, sell or hold the Series 2020 Bonds, and there is no assurance that such rating will be maintained for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in its judgment circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2020 Bonds.

UNDERWRITING

The Series 2020 Bonds will initially be purchased by Truist Securities, Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Series 2020 Bonds at a price resulting in underwriter's discount of \$712,467.50, subject to the terms of a Bond Purchase Agreement (the "Bond Purchase Agreement"), among the Authority, the Borrowers, the Corporation, and the Underwriter. The Bond Purchase Agreement provides that the Underwriter shall purchase all Series 2020 Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The initial offering prices set forth on page (i) hereof may be changed from time to time by the Underwriter. The Borrowers and the Corporation have agreed under the Bond Purchase Agreement to indemnify the Underwriter and the Authority against certain liabilities, including certain liabilities under federal and state securities laws.

INVESTMENT IN THE SERIES 2020 BONDS INVOLVES A SIGNIFICANT DEGREE OF RISK AND EACH PROSPECTIVE INVESTOR SHOULD CONSIDER ITS FINANCIAL CONDITION AND THE RISKS INVOLVED TO DETERMINE THE SUITABILITY OF INVESTING IN THE SERIES 2020 BONDS.

CERTAIN RELATIONSHIPS

Each of Ice Miller LLP and Ballard Spahr LLP has previously represented or currently represents the Bond Trustee, the Master Trustee, and the Underwriter in transactions unrelated to the issuance of the Series 2020 Bonds.

MISCELLANEOUS

General

The Borrowers and the Corporation have furnished the information in this Limited Offering Memorandum relating to the Borrowers, the Corporation, and the Project and have reviewed the information related to the plan of financing and related documents and information. The Authority has furnished only the information in this Limited Offering Memorandum under the captions "THE AUTHORITY" and LEGAL MATTERS - Pending or Threatened Litigation - No Proceedings Against the Authority." The Underwriter has furnished the information in this Limited Offering Memorandum with respect to the offering prices of the Series 2020 Bonds and the information under the caption "UNDERWRITING."

The foregoing summaries of the provisions of the Series 2020 Bonds, the Indenture, the Agreement, the Leases, the Master Indenture, and the Mortgages 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 Bond Trustee upon request. Insofar as any statements are made in this Limited Offering Memorandum involving matters of opinion, whether or not expressly so stated, they are made merely as such and not as representations of fact.

The appendices attached to this Limited Offering Memorandum are hereby expressly incorporated herein as a part hereof. This Limited Offering Memorandum has been duly approved by the Authority, the Borrowers, and the Corporation, and the Authority, the Borrowers, and the Corporation have authorized its distribution in connection with the underwriting of the Series 2020 Bonds. This Limited Offering Memorandum is not to be construed as a contract or agreement between or among the Authority, the Borrowers, the Corporation, and the purchasers or holders of any of the Series 2020 Bonds.

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

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING THE AUTHORITY CONTAINED UNDER THE CAPTIONS "THE AUTHORITY" AND LEGAL MATTERS - Pending or Threatened Litigation - No Proceedings Against the Authority," AS SUCH INFORMATION RELATES TO THE AUTHORITY, NONE OF THE INFORMATION IN THIS LIMITED OFFERING MEMORANDUM HAS BEEN SUPPLIED OR VERIFIED BY THE AUTHORITY, AND THE AUTHORITY MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE SERIES 2020 BONDS; OR (III) THE FEDERAL INCOME TAX STATUS OF THE INTEREST ON THE SERIES 2020 BONDS OR ANY STATE INCOME TAX STATUS OF THE SERIES 2020 BONDS.

The information contained above is neither guaranteed as to accuracy or completeness nor to be construed as a representation by the Authority or the Underwriter. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Limited Offering Memorandum nor any sale made hereunder is to create, under any circumstances, any implication that there has been no change in the affairs of the Borrowers, the Corporation, or the Authority from the date hereof.

The Limited Offering Memorandum is submitted in connection with the sale of the securities referred to herein and may not be reproduced or used, as a whole or in part, for any other purpose.

Registration of Series 2020 Bonds

Registration or qualification of the offer and sale of the Series 2020 Bonds (as distinguished from registration of the ownership of the Series 2020 Bonds) is not required under the federal Securities Act of 1933, as amended. The Authority assumes no responsibility for qualification or registration of the Series 2020 Bonds for sale under the securities laws of any jurisdiction in which the Series 2020 Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred.

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Certification

The preparation of this Limited Offering Memorandum and its distribution have been authorized by the Borrowers, the Corporation, and the Authority. This Limited Offering Memorandum is not to be construed as an agreement or contract between either Borrower, the Corporation, or the Authority and any purchaser, owner or holder of any Series 2020 Bond.

PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT

By: /s/ Evelyn F. Smalls
Evelyn F. Smalls, Chairperson

DEMEDICI CORPORATION

By: /s/ Javier Kuehnle
Javier Kuehnle, Board President

DEMEDICI CORPORATION II

By: /s/ Javier Kuehnle
Javier Kuehnle, Board President

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL

By: /s/ Javier Kuehnle
Javier Kuehnle, Board President

APPENDIX A

**GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE
BORROWERS**

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GENERAL INFORMATION REGARDING THE CORPORATION, THE SCHOOL, AND THE BORROWERS

The Corporation, the School, and the Borrowers

Each of DeMedici Corporation ("DeMedici") and DeMedici Corporation II ("DeMedici II" and, together with DeMedici, the "Borrowers" and each, a "Borrower") is a Pennsylvania nonprofit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). Each Borrower operates exclusively for charitable and educational purposes including making distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Code. This includes providing facilities, land, and improvements for the benefit of Philadelphia Performing Arts: A String Theory Charter School (the "Corporation").

The Corporation does not exercise corporate control over DeMedici or DeMedici II, but there is certain common membership across the boards of directors of the Corporation, DeMedici, and DeMedici II. DeMedici and DeMedici II are legally separate from the Corporation but are component units of the Corporation for purposes of financial reporting. See APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION FOR THE FISCAL YEARS ENDED JUNE 30, 2017, 2018, AND 2019."

The Corporation is a Pennsylvania nonprofit corporation, an organization described in Section 501(c)(3) of the Code, and a charter school under 24 PS §17-1701-A *et seq.* (the "Charter School Law"). The Corporation was incorporated in 2000 and operates as the public charter school known as Philadelphia Performing Arts: A String Theory Charter School (the "School").

The School is a K-12, tuition-free, City of Philadelphia, Pennsylvania ("Philadelphia" or the "City") public charter school open to all Philadelphia residents. The School's goal is to make the arts the catalyst for learning as they prepare students to successfully meet future academic and social challenges. The faculty at the School includes experienced professional and distinguished artists. The School is considered a "niche" school and it attracts students from all over Philadelphia, as well as from some surrounding school districts.

The Corporation received its initial charter from the School District of Philadelphia ("SDP") on August 14, 2000, effective for a four year term. The Corporation has received three charter renewals since its first approval: in 2004, 2009, and 2014.

SDP recommended approval of the School's charter renewal in 2019, but negotiations of a new charter contract between SDP and the School are currently ongoing. During negotiations, the School remains a public charter school in good standing under Commonwealth law and the Commonwealth of Pennsylvania Charter dated as of August 21, 2014 (the "Charter") between SDP and the Corporation remains in full force and effect. Under Commonwealth law, the Charter remains in effect until a new Charter is approved and executed by both the Corporation and SDP.

Over the years, the Corporation has requested enrollment cap increases in order to meet the needs of students in Philadelphia neighborhoods. The first enrollment cap increase was granted in 2010 with an enrollment increase for grades K-8 from 450 to 570 and a second enrollment cap increase was granted in 2011, to 625.

In May 2012, the School received one of the largest ever charter expansions in Philadelphia, which included an enrollment cap increase from 625 to 2,525, which made the School the largest charter school in Philadelphia.

For the 2020-21 school year, the School serves approximately 2,641 students in grades K-12. Management of the Corporation ("Management") expects that enrollment will increase to approximately 2,772 students in grades K-12 by the 2024-25 school year as described herein.

The School is a String Theory School (see "THE CORPORATION – String Theory Schools") and it is the mission of all String Theory Schools to:

- **Educate** each student according to age and development so that learning and growth are united.
- **Integrate** the developing mind and body of the student with academics and the performing arts and sciences.

- **Ensure** each student's excellence in core and academic skills.
- **Awaken** and preserve the spirit of students through the visual and digital arts, vocal arts, instrumental music, creative writing, classical ballet, foreign language, innovations in the field of science, all intertwined with technology, and
- **Nourish** this spirit and curiosity so that students continue to flourish long after the end of formal training.

In order to accomplish this mission, String Theory Schools offer a comprehensive educational program that emphasizes equally academic and artistic excellence. Using the arts as a catalyst, harness the most innovative teaching and learning techniques, to serve as a model for education and to prepare students for success. String Theory Schools believe every student is gifted and has specific intelligences that must be nurtured. Providing students with equal opportunity for learning and discovery and development of their innate potentials, through String Theory Schools' unique and rigorous curriculum blending academic and artistic excellence, enabling its students to become the next generation of creative leaders.

The Series 2020 Bonds and the Project

The proceeds of the Series 2020 Bonds¹ will be used to fund a loan (the "Loan") from the Authority to the Borrowers in order to: (a) refund the Authority's Revenue Bonds (Philadelphia Performing Arts Charter School Project), Series of 2013, issued in the original aggregate principal amount of \$55,500,000 and outstanding in the principal amount of \$51,940,000 (the "Refunded Bonds") the proceeds of which were used to finance school facilities located at (i) 2600-30 South Broad Street, Philadelphia, PA (the "2630 Broad Street Facility"); (ii) 2407 Broad Street, Philadelphia, PA, 1338-42 Ritner Street, Philadelphia, PA and 2419-37 South Broad Street, Philadelphia, PA; and (iii) 1600 Vine Street, Philadelphia, PA (collectively, the "2013 Facilities"); (b) finance the payment of, or reimbursement to the Borrowers for, the acquisition, construction, renovation and equipping of school facilities and other buildings located at 2632 South Broad Street, Philadelphia, PA (the "2632 Broad Street Facility" and together with the 2013 Facilities, the "Facilities" and individually, a "Facility") to expand capacity for the operations of the Corporation for use in its school operations; (c) fund a debt service reserve fund for the Series 2020A Bonds; and (d) fund all or a portion of the costs of issuance of the Series 2020 Bonds (collectively, the "Project").

The 2630 Broad Street Facility and the 2632 Broad Street Facility are herein referred to as the "DeMedici Facility" and the land and improvements located at 1600 Vine Street, 2407 S. Broad Street, 1338-1342 Ritner Street, and 2419-2437 S. Broad Street, Philadelphia, Pennsylvania are herein referred to as the "DeMedici II Facility."

The Corporation currently leases the 2630 Broad Street Facility from DeMedici and prior to the date of issuance of the Series 2020 Bonds (the "Closing Date"), DeMedici has used its own equity, for which it will be reimbursed using a portion of the proceeds of the Series 2020 Bonds, to acquire the 2632 Broad Street Facility from an unrelated third party (the "Seller") for a purchase price of \$6,000,000, the Corporation's existing lease of the 2630 Broad Street Facility will terminate and the Borrowers and, on the Closing Date, the Corporation will enter into (i) the Lease Agreement, dated as of December 1, 2020 (the "DeMedici Lease"), by and between DeMedici, as landlord, and the Corporation, as tenant, for the lease of the DeMedici Facility and (ii) the Lease Agreement dated as of December 1, 2020 (the "DeMedici II Lease" and, together with the DeMedici Lease, the "Leases" and individually, a "Lease"), by and between DeMedici II, as landlord, and the Corporation, as tenant for the DeMedici II Facility. The Leases provide that the payment of Base Rent (as defined in the Leases) by the Corporation to the Master Trustee (for the account of the Borrowers) on aggregate will be in an amount sufficient to pay the debt service on the 2020 Note.

In connection with the acquisition of the 2632 Broad Street Facility by DeMedici, (i) DeMedici entered into an Assignment and Assumption of Leases with the Seller (the "Assignment") pursuant to which the Seller assigned and DeMedici assumed a Standard Office Lease Agreement, as amended (collectively, the "Tenant Lease"), by and between the Seller and an unrelated third party physical therapy provider ("Tenant"), under which Tenant is currently a holdover month-to-month tenant and (ii) Tenant delivered a Tenant Estoppel Certificate (the "Tenant Estoppel"), to

¹ Capitalized terms used but not defined in this Appendix A shall have the meanings set forth in the Limited Offering Memorandum or in APPENDIX E – "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS."

the Master Trustee. The Tenant is expected to vacate the 2632 Broad Street Facility no later than one year after the Closing Date.

After the Closing Date, DeMedici is expected to enter into a contract for the renovation of the 2632 Broad Street Facility, to consist of basement, first floor, and second floor renovation to add 10 classrooms, seven studio spaces, and four offices and to update electrical, IT, and HVAC (the "Renovation Project"), expected to cost approximately \$1,500,000, which amount is expected to be paid from a portion of proceeds of the Series 2020 Bonds.

THE CORPORATION

General

The Corporation is a Pennsylvania nonprofit corporation, an organization described in Section 501(c)(3) of the Code, and a charter school under the Charter School Law. The Corporation operates as the School pursuant to the Charter.

Governing Board of the Corporation

The business and affairs of the Corporation are managed under the direction of the Board of Trustees of the Corporation (the "Corporation Board"), which is currently comprised of six members. The Corporation Board shall be comprised of not less than five individuals (each a "Corporation Trustee").

The Corporation Trustees serve two-year terms and are elected by a majority vote of the then-existing Corporation Board. However, any potential Corporation Trustee must be chosen from the slate of nominations set forth by String Theory Schools in accordance to the bylaws (the "Bylaws"). Two of the Corporation Trustees will be parents or legal guardians of students currently attending the School.

The Bylaws require the Corporation Board to hold regular meetings once a month. An annual meeting is typically held in June and special meetings may be called by the Chairperson or by one-third of the Corporation Board.

Officers of the Corporation Board include a Chairperson, Vice Chairperson, Secretary, and a Treasurer, and such other officers and assistant officers as the needs of the Corporation Board requires, none of whom need be members of the Corporation Board. Should additional officers or assistant officers be required, each shall serve for a term of one-year.

In accordance to the Bylaws of the Corporation, the Corporation Board has the power and responsibility to engage in the following acts (including, but not limited to):

- | | | |
|--|---|---|
| - Execute a Charter with SDP | - Establish and maintain policies | - Appoint one or more Principals |
| - Adopt the School calendar | - Approve textbooks | - Appoint/dismiss School administrators |
| - Adopt the annual budget | - Purchase, sell, dispose of property | - Locate new buildings and/or relocate the operations of the School |
| - Create/increase indebtedness | - Adopt the curriculum | - Select depositories for the Corporation Board funds |
| - Enter into contracts, leases, agreements to further the School's purpose | - Determine salaries of administration, teachers or other employees of the School | |

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Certain information regarding the Corporation Board is set forth in the table below.

Name	Title	Profession	Employer	Year Joined	Term Ends
Javier Kuehnle	Chairperson	Engineering & Manufacturing	Spalding Automotive, Inc. & C.A. Spalding Company	2000	2022
William Brad Leach	Vice Chairperson	Pastor	CityLife Church	2010	2022
Kristin Kubach	Secretary	Medical	Surgery Center of Pennsylvania Hospital	2011	2021
Ronald Pigliacelli	Treasurer	Retail	Deb Shops	2013	2021
Krista Alexander	Trustee	Medical	Broad Street Weight Management	2000	2021
Evelt Vertil	Trustee	Transportation Services & Motivational Speaker	Barnabas Limo, LLC	2014	2022

Javier Kuehnle, Chairman. Javier Kuehnle is a founding board member of the Corporation Board, which was founded in 2000. As the President and C.E.O. of Spalding Automotive, Inc. and C.A. Spalding Company, Mr. Kuehnle provides engineering and manufacturing services to the automotive and aerospace industries. He is a graduate of the University of Pennsylvania, Wharton School of Business. He was born in Rio Piedras, Puerto Rico but has spent most of his life living in Philadelphia. In addition to his work with the Corporation Board and The Philadelphia Charter School for the Arts and Sciences ("PCSAS," another String Theory School) at H.R. Edmunds, he has served on the board of the Latino Scholarship Fund.

William Brad Leach, Vice Chairman. Pastor William Leach has actively looked for opportunities to meet educational needs in Philadelphia; he was immediately drawn to the mission of all String Theory Schools when he began serving on the Corporation Board in 2010. Pastor Leach is an experienced leader devoted to establishing and reproducing churches that serve the city. In 2011, he started CityLife Church in South Philadelphia. CityLife has grown to be a thriving, diverse, lifegiving church for its neighborhood. Pastor Leach received a Bachelor of Arts degree from Central Bible College and a Master of Arts in Church Administration from Assemblies of God Theological Seminary.

Kristin Kubach, Secretary. Kristin Kubach has served on the Corporation Board since 2011 and is the Director of Nursing for the Surgery Center of Pennsylvania Hospital. She holds a master's degree in Nursing Administration with a concurrent Post-Master's Certificate in Nursing Education.

Ronald Pigliacelli, Treasurer. Ron Pigliacelli has been employed for almost 30 years at Deb Shops, a woman's retail clothing chain of approximately 300 stores and successful ecommerce website, as Director of Import Operations. In this capacity, Mr. Pigliacelli is responsible for the finance, shipping & logistics and U.S. Customs & Border Protection compliance of the company's international transactions. Additionally, he has been a working member of the Treasurers & Ticketsellers Local 752 (an affiliate of IATSE) for over 40 years. Mr. Pigliacelli currently has two grandchildren that attend the School and is a member of the board of trustees for PCSAS. Mr. Pigliacelli attended the Community College of Philadelphia and Temple University.

Krista Alexander, Corporation Trustee. Krista Alexander has been a funeral director since 1992. In addition, Ms. Alexander works as a Medical Assistant at Broad Street Weight Management. She has been involved with the String Theory Schools community in Philadelphia since the first school's inception in 2000. She is also a member of the board of trustees for the PCSAS. Ms. Alexander attended the CDM Institute, EKG and Phlebotomy Certificate Program, graduating in 2011, Roxborough Memorial Hospital School of Nursing, 1 yr. completed September 2010, American Academy McAllister Mortuary School of Science, and Community College of Philadelphia.

Evelt Vertil, Corporation Trustee. Evelt Vertil has been working in the service industry for over 10 years. In March 2014, Mr. Vertil started his own business, Barnabas Limo LLC. He is also employed as a

motivational/inspirational speaker for a myriad of events and causes. Mr. Vertil is also a member of the board of trustees for the PCSAS. Mr. Vertil attended Primerica Financial Services University, majoring in Personal Financial Analysis.

Budget and Financial Management. In accordance to the Bylaws, the fiscal year of the Corporation shall be July 1 of each year through June 30 of the following year. The Treasurer is responsible for all funds, including local, state, and federal funds as well as privately donated funds. The Treasurer will deposit funds belonging to the Corporation in a depository approved by the Corporation Board, which may be invested consistent with sound business practices. The Chief Executive Officer (the "CEO") is the administrative lead of the Corporation and advises and reports to the Corporation Board on all matters relating to the School. The CEO is responsible for routine fiscal matters, including receipt of funds, payment of invoices and contracts as approved by the Corporation Board, general bookkeeping and accounting, and assists in the preparation of the Corporation's audit.

Conflict of Interest. No Corporation Board member or non-Corporation Board member serving on a Corporation Board committee shall vote on or participate in any Corporation Board or committee decision in which he or she has a conflict of interest except to disclose the conflict and respond to questions from other participants. A conflict of interest includes, without limitation, the substantial likelihood of any profit, financial gain, or personal benefit accruing to the Corporation Board member or committee member or to any of his or her business relations or immediate family members.

Committees of the Corporation Board. The Corporation Board may elect or appoint committees as they determine necessary. An Advisory Committee that includes members of the community, School staff, Corporation Trustees, and others may be established by the Corporation Board prior to the beginning of each school year, to advise the Corporation Board on issues the Corporation Board deems suitable. Currently, the Corporation Board only has the Advisory Committee established.

String Theory Schools

String Theory Schools ("String Theory") is a nonprofit corporation established in 2011 to provide education management services, through an educational model providing a Science, Technology, Engineering and Math ("STEM") + Arts curriculum. String Theory's flagship model is the School. When the School commenced operations in September 2000, it became the only public school in the State of Pennsylvania (the "Commonwealth" or "State") to link academic education with the arts. Since 2000, schools across the nation as well as others in the State have followed the School's model, which became known as the String Theory model.

The Corporation has entered into an Academic and Business Services Agreement dated June 20, 2011 (the "Academic and Business Agreement"), by and between String Theory and the Corporation, pursuant to which String Theory provides academic and business services to the Corporation for the School. In addition, the Corporation has entered into an Academic Services and Facilities Management Agreement dated January 20, 2014, as amended by the Amendment dated July 1, 2019 (together, the "Academic and Facilities Agreement" and, together with the Academic and Business Agreement, the "String Theory Agreements"), each by and between String Theory and the Corporation, pursuant to which String Theory provides academic and facilities management services to the Corporation for the School.

Under the String Theory Agreements, the Corporation relies on String Theory to advise on the operations, development, and implementation of all accountability standards for the School. String Theory will assist in the application of as well as the writing of grants to support current programs at the School, and new programs that may enhance or promote a higher learning for the students at the School.

Under the Academic and Business Agreement, the Corporation pays to String Theory a total annual fee of \$2,253,562.50 for the 2020-21 school year, increasing year-over-year to \$2,468,187.50 for the 2023-24 school year.

Under the Academic and Facilities Agreement, the Corporation pays to String Theory a total annual fee of \$397,687.50 for the 2020-21 school year, increasing year-over-year to \$454,500 for the 2023-24 school year.

In each Lease, the Corporation agrees and acknowledges that payment of any and all management fees by it to any management company is subordinate to the payment of Base Rent and Additional Rent thereunder sufficient to

pay debt service on the 2020 Note. Any management company to be retained by the Corporation must agree in writing to such subordination. While the String Theory Agreements comply with the foregoing requirement, each of the String Theory Agreements expires according to its terms prior to the final maturity of the Series 2020 Bonds. See "RISK FACTORS – Subordination of Management Company Payments; Term of String Theory Agreements."

Business Manager

Santilli & Thomson, LLC, serves as business manager to the School (the "Business Manager"). The Corporation contracts with the Business Manager pursuant to a consulting agreement for the term July 1, 2017, through June 30, 2022 (the "Business Management Agreement"). The Business Manager Agreement may be extended thereafter by mutual written agreement of the parties and may be terminated for cause by either party upon failure of such party to address written notice of nonperformance or noncompliance within a 30 day cure period.

Pursuant to the Business Manager Agreement, the Business Manager provides the Corporation with certain accounting, budget, financial reporting, cash management, payroll, and other financial services. Compensation under the Business Management Agreement consists of a per student fee for basic services (\$123/student for the current year), a per student fee for fiscal officer services (\$68/student for the current year), and certain additional charges.

THE BORROWERS

General

Each of the Borrowers is a Pennsylvania nonprofit corporation and an organization described in Section 501(c)(3) of the Code. Each Borrower operates exclusively for charitable and educational purposes including making distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Code. This includes providing facilities, land, and improvements for the benefit of the Corporation.

The Corporation does not exercise corporate control over DeMedici or DeMedici II, but there is certain common membership across the boards of directors of the Corporation, DeMedici, and DeMedici II. DeMedici and DeMedici II are legally separate from the Corporation but are component units of the Corporation for purposes of financial reporting. See APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION FOR THE FISCAL YEARS ENDED JUNE 30, 2017, 2018, AND 2019."

DeMedici Governing Body. The Board of Directors of DeMedici (the "DeMedici Board"), which governs the management of the properties owned by DeMedici and the affairs of DeMedici. The DeMedici Board consists of three members (the "DeMedici Directors"), which are elected by the DeMedici Directors for terms of three years.

The officers consist of a President, Vice President, Secretary, and Treasurer (a position that is not currently filled), and such other officers as may be elected, each of whom serve one year terms.

Certain information about the DeMedici Directors is set forth in the table below:

Name	Title	Profession	Employer	Year Joined	Term Ends
Javier Kuehnle	President	Engineering & Manufacturing	Spalding Automotive, Inc. & C.A. Spalding Company	2004	2023
Ronald Pigliacelli	Vice President	Retail	Deb Shops	2013	2023
Krista Alexander	Secretary	Medical	Broad Street Weight Management	2013	2023

Each of the DeMedici Directors is a Corporation Trustee for which certain biographical information is set forth under the heading "THE CORPORATION – General." Each of the DeMedici Directors is also a DeMedici II Director.

DeMedici II Governing Body. The Board of Directors of DeMedici II (the "DeMedici II Board"), which governs the management of the properties owned by DeMedici II and the affairs of DeMedici II. The DeMedici II

Board consists of three members (the "DeMedici II Directors"), which are elected by the DeMedici II Directors for terms of three years.

The officers consist of a President, Vice President, Secretary, and Treasurer (a position that is not currently filled), and such other officers as may be elected, each of whom serve one year terms.

Certain information about the DeMedici II Directors is set forth in the table below:

Name	Title	Profession	Employer	Year Joined	Term Ends
Javier Kuehnle	President	Engineering & Manufacturing	Spalding Automotive, Inc. & C.A. Spalding Company	2011	2023
Ronald Pigliacelli	Vice President	Retail	Deb Shops	2013	2023
Krista Alexander	Secretary	Medical	Broad Street Weight Management	2013	2023

Each of the DeMedici II Directors is a Corporation Trustee for which certain biographical information is set forth under the heading "THE CORPORATION – General." Each of the DeMedici II Directors is also a DeMedici Director.

THE PROJECT

General

The proceeds of the Series 2020 Bonds will be used to fund a loan from the Authority to the Borrowers in order to: (a) refund the Refunded Bonds; (b) finance the payment of, or reimbursement to the Borrowers for, and/or refinancing of a bridge loan that financed, the acquisition, construction, renovation and equipping of the 2632 Broad Street Facility to expand capacity for the operations of Corporation for use in its school operations; (c) fund a debt service reserve fund for the Series 2020A Bonds; and (d) fund all or a portion of the costs of issuance of the Series 2020 Bonds.

The Corporation currently leases the 2630 Broad Street Facility from DeMedici and prior to the Closing Date, DeMedici used its own equity, for which it will be reimbursed using a portion of the proceeds of the Series 2020 Bonds, to acquire the 2632 Broad Street Facility from the Seller for a purchase price of \$6,000,000, and, on the Closing Date, the Corporation's existing lease of the 2630 Broad Street Facility will terminate and the Borrowers and the Corporation will enter into the Leases for each respective Facility that provide that the payment of Base Rent (as defined in the Leases) by the Corporation to the Master Trustee (for the account of the Borrowers) on aggregate will be in an amount sufficient to pay the debt service on the 2020 Note.

In connection with the acquisition of the 2632 Broad Street Facility by DeMedici, (i) DeMedici entered into the Assignment, pursuant to which the Seller will assign and DeMedici will assume the Tenant Lease, under which Tenant is currently a holdover month-to-month tenant and (ii) Tenant delivered the Tenant Estoppel to the Master Trustee. The Tenant is expected to vacate the 2632 Broad Street Facility no later than one year after the Closing Date.

On the Closing Date, the Refunded Bonds will be redeemed in full.

After the Closing Date, DeMedici is expected to enter into a contract for the Renovation Project, expected to cost approximately \$1,500,000, which amount is expected to be paid from a portion of proceeds of the Series 2020 Bonds.

While such contract has not been entered into, DeMedici has not obtained permits or approvals for the Renovation Project, and there can be no assurance that the Renovation Project will be completed timely or for the cost budgeted by Management, Management does not expect any delay or costs overrun in the Renovation Project to have a material adverse effect on the Corporation or the School because the Renovation Project is limited to spaces that are not currently used for operations of the School, is expected to be conducted while School is not in session, and is capable of completion from funds the Corporation has on hand if the cost budgeted by Management is exceeded.

The Facility at which the Renovation Project will occur has asbestos-containing materials ("ACMs") and lead-based paint ("LBP"). See " - Environmental Reports" below. If either ACMs or LBP are located where the Renovation Project will occur, remediation thereof may increase the cost or delay the completion of the Renovation Project. The scope of any necessary remediation cannot be predicted.

The Borrowers and the School believe that the presence of ACMs, LBP, and lead coatings in certain of the Facilities is controlled and does not pose a risk to students or staff during day-to-day operations of the School.

To the extent ACMs or LBP are identified and would be disturbed by the Renovation Project, the Borrowers and the School will ensure that all ACMs and LBP are removed according to the applicable regulations and recommendations of the Consultant and the contractor undertaking the Renovation Project.

See "RISK FACTORS – Renovation Risks."

The Lease

On the Closing Date, the Borrowers and the Corporation will enter into the Leases for each respective Facility that provide that the payment of Base Rent (as defined in the Leases) by the Corporation to the Master Trustee (for the account of the Borrowers) on aggregate will be in an amount sufficient to pay the debt service on the 2020 Note. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS — The Leases."

The Mortgage

In order to further secure the Obligations, each Borrower will, as applicable, (a) grant a mortgage lien on and security interest in its interest in its respective Facility to the Master Trustee, for the benefit of the holders of the 2020 Note, pursuant to (i) the Open-End Mortgage, Assignment of Leases and Income, Security Agreement and Fixture Filing, dated as of December 1, 2020, but effective the Closing Date, from DeMedici in favor of the Master Trustee (the "DeMedici Mortgage") and (ii) the Open-End Mortgage, Assignment of Leases and Income, Security Agreement and Fixture Filing, dated as of December 1, 2020, but effective the Closing Date, from DeMedici II in favor of the Master Trustee (the "DeMedici II Mortgage" and, together with the DeMedici Mortgage, the "Mortgage"), and (b) assign its interest in the Lease to the Master Trustee pursuant to its respective Mortgage.

See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS — The Mortgage" and see "Appraisals" below for a description of the appraised value of the Facility.

The Facilities

The following table sets forth certain information about the Facilities.

Address	Ft. ² (Approx.)	Grades Served
2407 South Broad Street, Philadelphia, PA; 1338-1342 Ritner Street, Philadelphia, PA; and 2419-2437 South Broad Street, Philadelphia, PA	51,706	K-1
2600-2632 South Broad Street, Philadelphia, PA	27,583 and 24,691	2-4
1600 Vine Street, Philadelphia, PA	263,548	5-12

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Appraisals

Benchmark Appraisal Group, LTD (the "Appraiser") conducted appraisals for each Facility (collectively, the "Appraisals"), certain details of which are summarized in the following table.

Address	Interest Valued	"As-Is" Date	"As-Is" Value (\$)
2600-2630 South Broad Street, Philadelphia, PA	Fee Simple	8/17/2020	3,725,000
2407 South Broad Street, Philadelphia, PA; 1338-1342 Ritner Street, Philadelphia, PA; and 2419-2437 South Broad Street, Philadelphia, PA	Fee Simple	8/17/2020	6,470,000
1600 Vine Street, Philadelphia, PA	Fee Simple	8/17/2020	47,500,000
2632 South Broad Street, Philadelphia, PA	Leased Fee	7/2/2020	5,775,000
TOTAL			63,470,000

The summary of the Appraisals contained in this section is not meant to be exhaustive, and reference should be made to each report for a complete recital of its terms. The values of each Facility are estimated in each Appraisal and represent the opinion of the Appraiser, and only as of the effective date of each of the Appraisals. The Appraiser will not be engaged to update or revise the estimates contained in any one of the Appraisals after its date.

See "RISK FACTORS – Risks of Real Estate Investment – Value of Property May Fluctuate; Limitations of Appraisals."

Environmental Reports

Duffield Associates, Inc. (the "Consultant") conducted Phase I Environmental Site Assessments of the Facilities and summarized its findings in reports thereof (the "Phase I Reports" and each a "Phase I Report"), certain information about which, including whether the Consultant identified any recognized environmental conditions ("RECs") in connection with each Facility, is set forth in the following table and described thereafter.

Address	Date	RECs
1338-42 Ritner Street, Philadelphia, PA	September 2020	Yes
1600 Vine Street, Philadelphia, PA	September 2020	Yes
2407 South Broad Street, Philadelphia, PA	September 2020	Yes
2437 South Broad Street, Philadelphia, PA	September 2020	Yes
2600 South Broad Street, Philadelphia, PA	September 2020	Yes
2632 South Broad Street, Philadelphia, PA	July 2020	Yes

The Phase I Reports for 1338-42 Ritner Street, 2407 Broad Street, 2437 Broad Street, 2600 Broad Street, and the 2632 Broad Street Facility state that one or more RECs were identified in connection with the related Facility because of one or more upgradient leaking underground storage sites. Because groundwater is not a source of drinking water in the area and because the sites are located more than 1,000 feet from the related Facility, which is beyond the State-prescribed proximity distance for vapor intrusion risk, the Consultant recommends no action with respect to the potential for petroleum-impacted groundwater at the related Facility.

If the site of any such Facility is redeveloped and contact with groundwater is anticipated, the Consultant recommends sampling and analysis of groundwater to aid in redevelopment planning.

Based on the Consultant's experience, the Consultant believes that historical fill is likely present at each Facility. If the site of any Facility is redeveloped requiring off-site disposal of excavated materials, the Consultant recommends sampling and analysis of such materials in accordance with State policy.

Asbestos surveys and LBP inspections were completed for each Facility, as summarized in the Phase I Reports. Asbestos was not present in tested materials but may be present in untested materials for 1338-42 Ritner Street and 1600 Vine Street and is assumed to be present in certain roofing and insulating materials for 2437 Broad Street. A six-month surveillance of ACMs was conducted at 2407 Broad Street, during which no damaged ACMs were observed but suspect ACMs were identified beneath newly damaged non-ACMs. None of the samples were reported to contain asbestos. Asbestos was present in tested materials for 2600 Broad Street and the 2632 Broad Street Facility.

Reported lead concentrations in paint and other coatings for 1338-42 Ritner Street, the 2632 Broad Street Facility, and the 2632 Broad Street Facility do not exceed the threshold values established by the City and are not considered a lead risk. LBP exists at 2407 Broad Street. LBP and lead coatings were not identified on or in 2437 Broad Street. Reported lead concentrations in paint and other coatings for 2600 Broad Street do exceed the threshold values established by the City and are considered a lead risk.

Lead was not detected in drinking water samples for any of the Facilities except that water testing for 1600 Vine Street detected lead in initial draw samples, but water was re-sampled and lead was not detected. The Consultant believes that the initial sampling results were caused by stagnation in piping and that flushing the lines resolved the issue.

The Consultant recommends the removal of ACMs identified for 2600 Broad Street and recommends the removal of any ACMs prior to demolition or renovation of any affected Facility.

Each Phase I Report speaks only as of the date indicated in the above table, and the Consultant has not been asked to perform any additional assessment of any Facility since the time of the related Phase I Report. Further, the Phase I Reports are subject to the limitations specified therein. Potential investors must refer to the complete Phase I Reports for a full understanding of such limitations, and for additional information pertinent to each assessment and Phase I Report. More generally, no environmental assessment can completely eliminate uncertainty regarding the potential for recognized environmental conditions in connection with a subject property. Costs incurred by the Borrower or the School with respect to environmental remediation or liability could adversely affect its financial condition.

See "RISK FACTORS – Risks of Real Estate Investment – Environmental Risks."

Tenant Lease

In connection with the acquisition of the 2632 Broad Street Facility by DeMedici, (i) DeMedici entered into the Assignment, pursuant to which the Seller will assign and DeMedici will assume the Tenant Lease, under which Tenant is currently a holdover month-to-month tenant and (ii) Tenant delivered the Tenant Estoppel to the Master Trustee. The Tenant is expected to vacate the 2632 Broad Street Facility no later than one year after the Closing Date.

See "RISK FACTORS – Risks Related to Tenant Lease."

THE SCHOOL

The Charter

SDP recommended approval of the School's charter renewal in 2019, but negotiations of a new charter contract between SDP and the School are currently ongoing. During negotiations, the School remains a public charter school in good standing under Commonwealth law and the Charter between SDP and the Corporation remains in full force and effect. Under Commonwealth law, the Charter remains in effect until a new Charter is approved and executed by both the Corporation and SDP.

The Charter has an enrollment cap of 2,525 students for the remaining of the term of the Charter. The enrollment cap contained in the Charter limits the number of students for which the School will receive per pupil revenues from SDP, but does not limit total enrollment at the School, which may draw students from other school districts in excess of the enrollment cap and receive per pupil revenues from such school districts.

The Charter provides SDP the right to not renew the Charter at the end of its term or to revoke the Charter during its term in accordance with Commonwealth law.

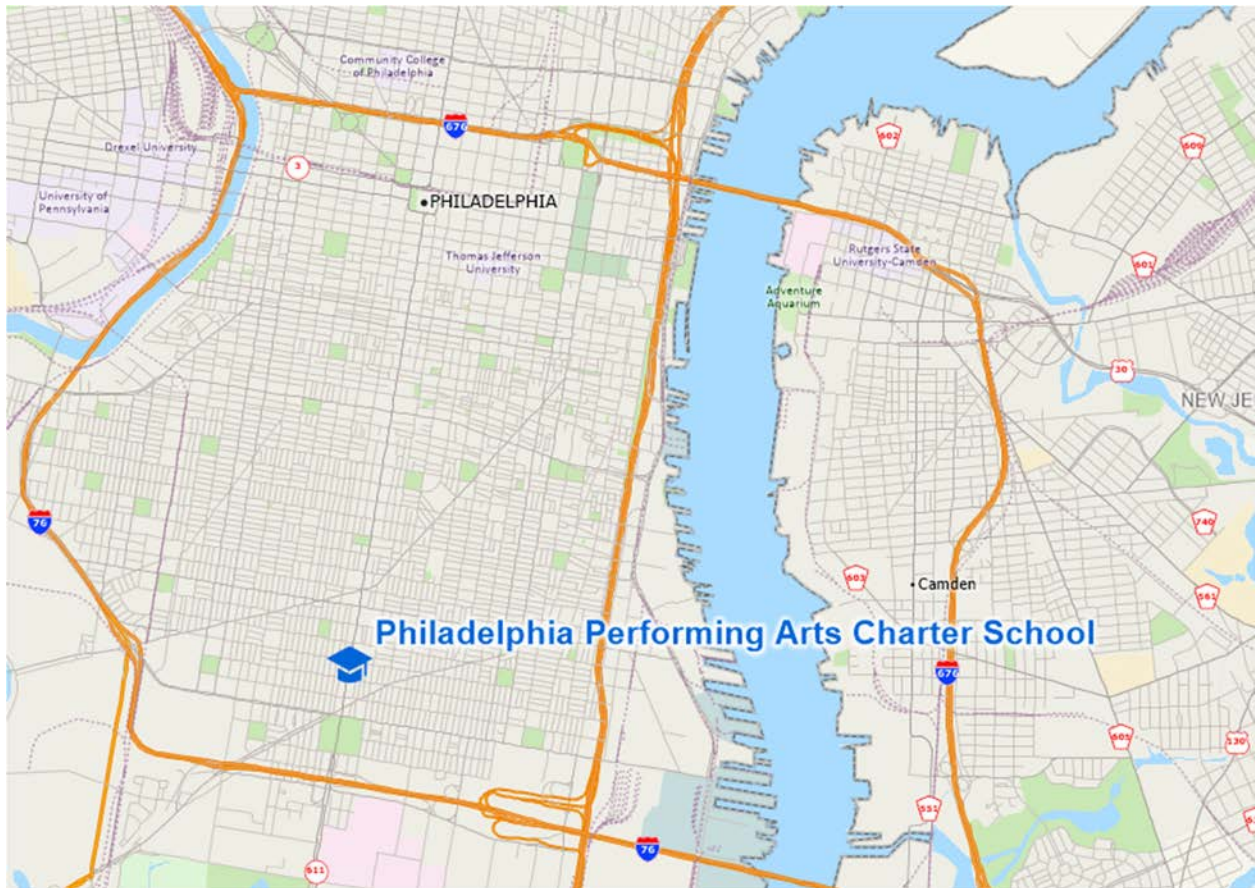
See "RISK FACTORS – Revocation, Non-Renewal, Expiration of Charter."

Future Plans

Management has no plans for the future expansion of the School or the Facilities, except as described herein.

Map of School Location

The following map shows the location of the Facilities.



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Service Area

The School is located within the district served by the SDP and draws most of its student population from this district. The School is considered a "niche" school and it attracts students from all over Philadelphia, as well as from some surrounding school districts.

Population and Demographic Information. The U.S. Census Bureau has estimated the following demographic statistics for the City of Philadelphia and the State.

	City of Philadelphia	The State
Population estimate, 2019	1,584,064	12,801,989
Population estimate, 2010	1,526,012	12,702,868
Population change (2010-2019) (%)	3.8	0.8
Persons under 5 years, 2018 (%)	6.8	5.5
Persons under 18 years, 2018 (%)	22.0	20.6

The U.S. Census Bureau provides certain details on population growth in the State and Philadelphia County set forth in the table below.

Geographic Area	Apr-10	Jul-18	Net Growth
The State	12,702,873	12,807,060	104,187
Philadelphia County	1,526,009	1,584,138	58,129

Housing. The following chart details select housing demographics for the City of Philadelphia and the State. The information detailed below has been provided by the U.S. Census Bureau and Data USA.

	City of Philadelphia	The State
Housing units, 2019	N/A	5,732,628
Households, 2014-18	594,778	5,025,132
Median value of owner-occupied housing units (2014-18) (\$)	156,800	174,100
Owner-occupied housing unit rate (2014-18) (%)	53.0	69.0
Building permits, 2019	N/A	23,539
Median property value, 2018 ² (\$)	167,700	186,000

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² Data USA

Income and Employment. Income, poverty rate, employment statistics and access to distance learning are detailed in the chart below for the City of Philadelphia and the State.

	City of Philadelphia	The State
Total percentage, population 16+ years (2013-17)	60.6	62.6
Median household income (2014-18) (\$)	43,744	59,445
Total employment, 2018	N/A	5,478,025
Persons in poverty (%)	24.9	12.2
Average commuter time, minutes ³	33.0	25.8
Households with a computer (2014-18) (%)	84.1	86.5
Households with broadband internet (2014-18) (%)	73.7	79.2

The charts below provide detailed information on personal income and its changes year-over-year for the State and Philadelphia County, from the Bureau of Economic Analysis, U.S. Department of Commerce.

Description	The State				
	2014	2015	2016	2017	2018
Personal Income (\$mils)	619,388	644,120	659,803	679,731	720,073
Population (# persons)	12,788,313	12,784,826	12,782,275	12,787,641	12,800,922
Per Capita Personal Income (\$)	48,434	50,382	51,619	53,155	56,252

Description	Philadelphia County				
	2014	2015	2016	2017	2018
Personal Income (\$000s)	77,249,069	79,794,538	85,767,703	83,165,714	88,311,658
Population (# persons)	1,565,604	1,571,258	1,576,390	1,580,221	1,584,138
Per Capita Personal Income (\$)	49,341	50,784	54,408	52,629	55,747

The following table lists the top ten employers for Philadelphia as reported by the *Philadelphia Inquirer*.

Rank	Company	Industry	# of Employees
1	Comcast Corporation	Telecommunications	9,092
2	TD Bank, NA	Financial Services	6,764
3	Burlington Stores	Retail	4,181
4	Independence Blue Cross LLC	Financial Services	3,318
5	Keller Williams Realty	Real Estate	2,700
6	Clemens Food Group	Manufacturing	2,200
7	NFI Industries	Distribution, Logistics & Freight	1,575
8	SugarHouse Casino	Hospitality & Entertainment	1,465
9	Toll Brothers, Inc.	Construction	1,442
10	Rothman Orthopedics	Healthcare	1,275

Education. The Pennsylvania Department of Education ("PDE") reports that the State supported more than 1.7 million students and 500 school districts for the 2019-20 school year. In addition to "traditional public schools",

³ Data USA

there are approximately 157 "brick and mortar" charter schools and 14 cyber charter schools educating over 135,000 students for the 2020-21 school year.

Competitor Schools

Public Schools. The School is located within the district served by SDP. As of February 2020, SDP served approximately 124,184 students in 242 schools, including 49 elementary schools, 99 elementary-middle schools, 14 middle schools, nine middle-high schools, 53 high schools and one K-12 school. Management has identified seven traditional public schools as competitors of the School. More information about these identified competitor schools is provided below.

Charter Schools. Within Philadelphia, there were 86 charter schools (including cyber charter schools) with approximately 70,000 students in the 2020-21 school year, according to SDP. Management has identified eight charter schools as competitors of the School. More information about these identified competitor schools is provided below.

Private Schools. There are currently 235 private schools serving approximately 49,048 students in Philadelphia County. Management does not believe that private schools are competitors of the School.

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The table below shows certain basic information and academic performance data for the 2018-19 school year for traditional public schools and charter schools Management has identified as competitors of the School. See "Academic Performance" for additional information regarding the School.⁴ See "Academic Performance" herein for additional information regarding the PSSA and the Keystone Exams. As a result of the COVID-19 pandemic, such tests were not conducted during the 2019-20 school year.

Competitors of the School

School	Distance (miles)	Grades	Type	Pennsylvania System of School Assessment ("PSSA") - Proficiency (%)			Keystone Exams					
				ELA	Math	Science	Algebra		Biology		Literature	
							Proficiency	11th Grade Banked	Proficiency	11th Grade Banked	Proficiency	11th Grade Banked
The School	-	K-12	Charter	62%	39%	69%	36%	56%	52%	60%	61%	68%
F Amedee Bregy School	0.6	K-8	District	30%	23%	35%	N/A	N/A	N/A	N/A	N/A	N/A
D. Newlin Fell School	0.7	K-8	District	41%	40%	66%	N/A	N/A	N/A	N/A	N/A	N/A
Mastery Charter School at Thomas Campus	0.8	K-12	Charter	46%	28%	53%	12.0%	48.0%	27.0%	53.0%	54.0%	70.0%
John H. Taggart School	1.2	K-8	District	33%	17%	26%	N/A	N/A	N/A	N/A	N/A	N/A
Southwark School	1.4	K-8	District	40%	23%	38%	N/A	N/A	N/A	N/A	N/A	N/A
High School for Creative and Performing Arts	1.7	9-12	District Criteria	N/A	N/A	N/A	22.0%	61.0%	40.0%	56.0%	75.0%	78.0%
Christopher Columbus Charter School	2.1	K-8	Charter	70%	38%	67%	N/A	N/A	N/A	N/A	N/A	N/A
Franklin Learning Center	3.7	9-12	District Criteria	N/A	N/A	N/A	17.0%	39.0%	53.0%	32.0%	37.0%	56.0%
Boys Latin of Philadelphia Charter School	5.0	5-12	Charter	24%	3%	35%	11.0%	41.0%	10.0%	51.0%	22.0%	59.0%
Science Leadership Academy	5.4	5-12	District Criteria	49%	17%	N/A	52.0%	71.0%	58.0%	68.0%	79.0%	85.0%
Global Leadership Academy Charter School	6.1	K-8	Charter	33%	11%	43%	N/A	N/A	N/A	N/A	N/A	N/A
Multicultural Academy Charter School	6.8	9-12	Charter	N/A	N/A	N/A	26.0%	65.0%	28.0%	43.0%	28.0%	65.0%
Discovery Charter School	7.3	K-8	Charter	45%	15%	49%	N/A	N/A	N/A	N/A	N/A	N/A
Ad Prima Charter School	7.6	K-8	Charter	50%	24%	59%	N/A	N/A	N/A	N/A	N/A	N/A
New Foundations Charter School	15.3	K-12	Charter	64%	41%	73%	18.0%	53.0%	28.0%	44.0%	41.0%	62.0%

⁴ As provided by the SDP school progress report website.

Administration

The School's administration consists of leadership teams for the elementary and middle/high school levels. The listing below provides the administrative staff by grade level and position.

Elementary

Angela Puleio, Chief Executive Officer/Principal (K-4) – Ms. Puleio holds a Certificate in School Leadership from Chestnut Hill College, an M.Ed. in Elementary Education from Holy Family University, and a B.A. in Psychology from LaSalle University. Ms. Puleio is certified as a Principal by the State and has been the Principal of the School since 2012, after 10 years as a teacher and one year as Assistant Principal. Prior to that, she was a private school teacher for 23 years. Ms. Puleio holds a permanent certification in elementary education in the State and in New Jersey and a highly qualified certification in social studies.

Julia Viola, Vice Principal (2-4) – Ms. Viola holds a B.A. in Psychology from Villanova University, a Teacher Certification in Elementary Education from the University of Pennsylvania, and a Principal's Certification in Education from St. Joseph's University. Ms. Viola initially served as a teacher at the School in 2006, then joined PCSAS as a Dean (3-5) in 2012. In 2015, Ms. Viola rejoined the School as Dean (2-4). She became Vice Principal in 2016.

January Mascino Teti, Vice Principal (K-1) – Ms. Teti holds an M.Ed. in Educational Leadership and Curriculum Supervision from St. Joseph's University and a B.S. in Early Childhood Education/Elementary Education/Psychology from Rowan University. She holds a State Level II Certification in Early Childhood Education and is certified as a Principal in the State. Before assuming her current role in 2018, Ms. Teti taught for more than six years and served as Dean of Students at the School for nearly four years.

Middle School/High School

Angela Ciccanti, Chief Academic Officer (5-8) – Ms. Ciccanti completed the Administration Post Graduate Program at St. Joseph's University and holds an M.Ed. from Arcadia University and a B.S. from Millersville University. She holds the following State certifications: Pennsylvania Instructional II: Early Childhood N-3, Elementary K-6, Reading Specialist PK-12, Supervisor of Curriculum and Instruction PK-12, and Principal PK-12. Ms. Ciccanti taught for 18 years before becoming an administrator and assumed her current role in 2014, after two years as a Vice Principal at the School.

Melissa Quarracino, Chief Operating Officer (5-12) – Ms. Quarracino holds a M.Ed. in Educational Leadership from St. Joseph's University, a M.Ed. in Special Education from Arcadia University, and a B.A. in Elementary Education from Arcadia University. Since 2004, she has served as a teacher and administrator at the School, including most recently as Assistant Principal for two years before assuming her current role in 2020. Ms. Quarracino is certified as a Principal in the State. She previously served as coach of the volleyball and softball teams at the School.

Keri Gleason, Chief Culture and Climate Officer – Ms. Gleason holds a M.Ed. in Educational Leadership, State Principal Certification Level I, and State Curriculum Supervisor Certification Level I from St. Joseph's University and a B.A. in Early Childhood/Elementary Education and a State Certification Level I from Temple University. Since 2000, she has served as a teacher and administrator at the School, including most recently as Assistant Principal for two years before assuming her current role in 2020. Ms. Gleason is certified as a Principal by the State.

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Faculty and Staff

The following table sets forth staffing for the School for each listed school year, including historical staffing for the 2016-17 through 2019-20 school years, current staffing for the 2020-21 school year, and projected staffing for the 2021-22 through 2024-25 school years.

	Historical				Current	Projected			
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Teachers	168	172	156	167	189	189	189	189	189
Teacher Aides	9	10	12	12	15	15	15	15	15
Support Staff	11	11	13	10	13	13	13	13	13
Administrative Staff	27	30	34	39	40	40	40	40	40
Total Full Time	215	223	215	228	257	257	257	257	257

The table below details teacher retention for the 2016-17 through 2020-21 school years. The numbers for each school year listed below reflect the percentage of teachers who returned from the prior year.

	2016-17	2017-18	2018-19	2019-20	2020-21
Teacher Retention Rate	85%	82%	82%	87%	93%

The following table sets forth the percentage of teachers at the School for the 2016-17 through 2020-21 school years who have earned the listed type of degree and licensure.⁵

School Year	Bachelor's	Master's	Doctorate	Certified
2016-17	47.10%	52.26%	0.65%	100%
2017-18	47.80%	51.57%	0.63%	100%
2018-19	37.84%	61.49%	0.68%	100%
2019-20	35.80%	62.00%	2.07%	91%
2020-21	41.30%	56.30%	1.70%	91%

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⁵ Beginning in the 2019-20 school year, the reporting requirements for local education agencies changed and the School began to include artists in residence in its data collection. Additionally, for the 2016-17 through 2019-20 school years, the percentage of teachers who earned the listed degrees and licensures was collected at the end of each school year. For the 2020-21 school year, the data was collected on September 15, 2020.

The following table sets forth the average teacher salaries for the School, its competitors, as identified by Management, SDP, and the Commonwealth for the 2016-17 through 2019-20 school years.

	2016-17	2017-18	2018-19	2019-20
The School	\$ 51,153	\$ 52,089	\$ 53,591	\$ 55,708
Global Leadership Academy Charter School	46,759	46,847	48,751	50,345
Mastery Charter School at Thomas Campus	65,126	65,281	65,554	67,124
Multicultural Academy Charter School	53,293	56,083	55,474	54,830
Christopher Columbus Charter School	58,133	58,143	57,179	56,230
New Foundations Charter School	51,395	50,697	50,071	57,891
Boys Latin of Philadelphia Charter School	52,230	53,672	56,001	61,000
Ad Prima Charter School	45,771	44,436	48,708	54,463
Discovery Charter School	49,952	50,283	49,656	50,120
SDP	67,479	70,516	69,562	72,524
The Commonwealth	66,265	57,535	58,930	70,339

Curriculum

The String Theory Vision. String Theory believes that creation is the imagination at work. The String Theory model is designed to train students to perform in life. The School is committed to cultivating an educational environment where students are interested, engaged, innovative, and productive.

The Arts and Sciences are vital components to the String Theory education. The School promotes students to hone the ability to create and to be creative, to inspire and to be inspired. String Theory offers life experience, academics, and the arts, forming a well-rounded educational approach.

The vision of String Theory is to provide the opportunity for students to explore their interests in the arts, language, science and/or technology that will prepare them for postsecondary studies or for a faster entry into related occupations through a proven model of excellence. The balance between artistic development and academic preparation is at the heart of the School's philosophy.

Majors Program. String Theory Majors Program is an accelerated model that is part of the School's unique core curriculum. Starting at the middle school level, students are required to enroll in a Major (as further detailed below), which is a rigorous discipline of study either in the Sciences or the Arts. Based on the multi-intelligences, the Majors Program is designed for students to gain valuable and authentic experiences by discovering individual pathways for learning and creating.

Major courses are an integral and inspirational component of the student's day. To prepare students for the Majors program at the elementary level, students in grades K-4 receive daily instruction in the performing arts, fine arts, foreign languages, and science in addition to traditional academic courses. Middle and high school students spend 90 minutes per day in their Majors course. Commitment to the Major over the course of the student's academic career cultivates discipline and expertise within his/her field of study and is a catalyst for choosing a future career path.

Majors. The Majors curriculum fosters learning in all curricular areas, thus preparing students for higher education, lifelong learning, and a wealth of career options. All middle and high school students deepen their knowledge and expertise within their Majors, as 90 minutes per day is devoted to the pursuit of content and practices in a rigorous discipline of study either in the Sciences or the Arts. Each Major program delves deeply into the subject, and students cultivate an immense skill set at the conclusion. As students develop within their Majors, internships and other opportunities exist to work with professionals in their chosen fields.

There are three Majors categories (School of Performing Arts, School of Design, and School of Science and Technology), which include fields of study that the student has a keen interest in or aptitude for. Brief descriptions of the Majors offered are provided in the chart below.

School of Majors	Major Subcategory	Brief Description
School of Performing Arts	Dance: Classical Ballet, Contemporary Dance (Grades 5-12)	<p><u>Major Track:</u> Middle School: Classical Ballet, Contemporary Dance High School: Classical Ballet, Contemporary Dance</p> <p><u>Classical Ballet</u> is designed to develop technically sound, artistically conscious, and stylistically versatile dancer-artists. The curriculum is centered on Classical Ballet with an emphasis on establishing strong classroom technique and performance ability. Technique classes for female students include pointe work. Students are assessed on technique facility, classroom etiquette, and performance, as well as an understanding of dance terminology and history. Ballet majors study choreography and have the opportunity to create their own work.</p> <p><u>Contemporary Dance</u> prepares students to become well-rounded performers. The Major includes many different styles of dance including contemporary ballet, modern, and jazz dance techniques. Students are given the opportunity to perform in these versatile genres. Students are required to conduct theoretical research on specific styles to fully understand each technique. Not only do students enhance their physical abilities, but also expand their knowledge of the many styles of choreography used in the professional arena. Through the study of Contemporary Dance, students have the opportunity to create their own work.</p>
	Instrumental Music: String Orchestra, Concert Band (Grades 5-12)	<p><u>Major Track:</u> Middle School: String Orchestra, Concert Band High School: String Orchestra, Concert Band</p> <p>This Major focuses on developing a student's understanding of music concepts that serve as the foundation for future development of aesthetic judgment. Students apply knowledge and understanding of the elements of style, form, and cultural heritage to listen to, perform, create, and defend their musical choices. In both Instrumental Music Major tracks, students explore career possibilities in music education, music composition, the music business, and music therapy. Both tracks play an integral role in school performances and attend various outreach programs during the school year.</p> <p><u>String Orchestra</u> focuses on continuing the development of skills on the violin, viola, cello, or double bass. Middle school and high school students, depending on their level, are placed in beginner, general, or advanced ensemble.</p> <p><u>Concert Band</u> will continue to develop skills on woodwind, brass, and percussion instruments.</p>
	Vocal Music (Grades 5-12)	<p><u>Major Track:</u> Middle School & High School: Vocal</p> <p>This Major develops an understanding of music composition, theory, and production. Through the refinement of their technique, students increase their ability to identify the components of musical sound and enhance their capabilities for composing and performing. Students become musically literate, familiar with music of other cultures, and able to write and create short rhythms and melodies. Vocal Music Majors are members of the school's Concert Choir, performing throughout the school year. Various choirs are created based on the interests and abilities of the students as they progress through the major.</p>

Theatre (Grades 5-12)	<p><u>Major Track:</u></p> <p>Middle School: Theatre – Drama & Musical Theatre</p> <p>High School: Theatre – Drama & Musical Theatre</p> <p>Introduces students to performance through the theatre discipline. Students develop skills such as speech articulation, problem-solving, critical thinking, teamwork, and responsibility through scene study, character development, improvisation, and movement. Students are introduced to basic theatre terminology. Additionally, students are expected to participate in all aspects of theatre, ranging from acting to set design, to costumes and makeup. Students are trained in Broadway dance and vocal music to round out their theatre education. Theatre Majors develop confidence in their individual ideas and abilities and experience self-growth through artistic expression.</p>
Television & Broadcast Arts (Grades 7-12)	<p><u>Major Track:</u></p> <p>Middle School: Television & Broadcast Arts (Grades 7-8 only)</p> <p>High School: Television & Broadcast Arts</p> <p>Students explore and navigate through the ever-changing field of visual communications. From film to television, to online content, TV broadcasting offers students the opportunity for hands-on experience in front of and behind the camera in all aspects of video production. The Major guides students from the evolution of an idea, into a fully planned project, through production and into post-production, editing and marketing. This course prepares students for college programs and careers in video production.</p>
School of Design	
Visual Arts: Digital Design & Fine Arts (Grades 5-8)	<p><u>Major Track:</u></p> <p>Middle School: Digital Design & Fine Arts</p> <p>High School: Fine Arts, 3D Design</p> <p><u>Digital Design & Fine Arts</u> is a fluid relationship. Fine artists use technology and digital artists depend on classical drawing and design skills to support their work. Middle school students develop both technological and fine arts skills. Students study and discuss works from distinguished artists in each medium, examining current techniques and applying these techniques to projects assigned in this course. Students individually produce material for each medium to submit for critique, discussion, and grading. Students learn to both give and apply constructive criticism of peer work. By high school, students choose an area of expertise on which to concentrate their studies. Students focusing on the Digital Design component of this major have the opportunity to work with the Vine Street Campus' motion capture studio, working in 3D animation. Students not only gain a deeper understanding of fine art, design, and animation, but also establish a strong language for the craft while simultaneously strengthening their portfolios and developing their own unique style. The senior year capstone projects consist of a portfolio presentation in front of peers and faculty.</p> <p><u>3D Design</u> exposes students to the computer animation pipeline through a variety of challenging concepts. Students taking this course will use industry standard software and a production quality motion capture studio to creatively expose the basics of designing in a three dimensional space.</p>

School of Science and Technology	XD: Experience Design (Grades 5-12)	<u>Major Track:</u> Middle School: XD: Experience Design High School: XD: Experience Design The practice of designing products, processes, services, events, omnichannel journeys, and environments with a focus placed on the quality of the user experience and culturally relevant solutions. The design process is geared to enhancing user satisfaction with a product by improving the usability, accessibility, and desirability provided in the interaction with a product. For students passionate about getting out a message, creating interactive experiences, running campaigns or crafting and sharing a compelling product narrative, this major will provide the skills and knowledge for success.
	STEM (Grades 5-9)	<u>Major Track:</u> Middle School: S.T.E.M. High School: S.T.E.M., Life Sciences & Biotechnology, Engineering & Robotics
	Life Sciences & Biotechnology (Grades 10-12)	<u>S.T.E.M. (Science, Technology, Engineering & Math)</u> (offered for Grades 5-9) emphasizes project and problem-based experiential learning. Students receive a solid foundation in life & physical science, engineering & computer science, and question-driven experimental design. These broad experiences provide students with the opportunity to hone their S.T.E.M. interests and focus their high school S.T.E.M. experiences down a biotechnology/life sciences or engineering/robotics track beginning at the 10th grade level.
	Engineering & Robotics (Grades 10-12)	<u>Life Sciences & Biotechnology</u> (offered for Grades 10-12) includes a foundation in laboratory and biomedical sciences, life sciences, environmental science and sustainability, and the social and ethical questions associated with advancements in these disciplines. Students learn to read, synthesize, and draw conclusions from scientific publications. Students develop the foundational knowledge to design and conduct their own biological experiments in response to relevant questions in the field. <u>Engineering & Robotics</u> (offered for Grades 10-12) students receive a foundation in engineering design principles, CAD design, fabrication, computer science, robotics, and electrical and mechanical engineering. Students develop a thorough grounding in the principles and practices of robotics, as well as the scientific and mathematical principles upon which they are built. Courses are focused on advanced concepts in engineering and programming to provide students with the foundational knowledge to examine, innovate, and create technology.

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Accomplishments. The School and its students have achieved many accolades and accomplishments for which they have been recognized. The lists below include selected music-related and STEM recognition that the School and its students have received.

Concert Choir:

Renaissance Music Competition

2018 – First Place

2017 – Second Place

A Capella at the Rock

2019 – Best Overall Effect

Outstanding Vocal Percussionist (student)

2017 – Outstanding Vocal Percussionist (student)

2016 – Outstanding Vocal Percussionist (student)

B101 Christmas Choir Competition

2019 – High School Division Champions

Concert Orchestra:

Renaissance Music Competition

2018 – Second Place

Combined Orchestras:

Music Showcase Festival

2018 – First Place String Orchestra

2017 – First Place String Orchestra

2016 – First Place String Orchestra

- Best Section Award – Cello

- Overall Instrumental Award – First Place

- Grand Sweepstakes Award

2015 – First Place String Orchestra

Music in the Parks Festival

2019 – First Place String Orchestra

All City Orchestra Concerto Competition

2019 – Student received Honorable Mention

2019 – Student received First Runner Up

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2015:	Science Olympiad ⁶	Second Place in the City	
2016:	Science Olympiad	First Place in the City	
2017:	Science Olympiad	Second Place in the City	
2018:	Science Olympiad	Second Place in the City	
2019:	Science Olympiad	Third Place in the City	
	Roman Catholic Science Fair ⁷	5th Grade – First Place: four students Second Place: four students Third Place: four students	7th Grade – Second Place: three students Third Place: two students
2020:	Roman Catholic Science Fair	5th Grade – Second Place: two students Third Place: two students 7th Grade – Second Place: one student Third Place: three students	6th Grade – First Place: two students Second Place: four students Third Place: four students 8th Grade – First Place: four students

Redefining the Classroom. String Theory learning spaces are designed to activate the wonder, innovation, and art within the local community, the school, world, and selves. The School's model reinforces the notion that students must feel safe and secure in order to reach their full potential for creation and productivity. String Theory strives to bring the world of possibilities to its students by offering spaces for learning, inventing, collaborating, creating, and performing that will stimulate and inspire its students so that, in turn, the student will inspire us.

Technology. Learning surpasses the confines of the textbook. At the School, students and teachers employ technology to enhance creativity, rigor, and access to information and discovery. Teachers are course designers, creative problem solvers, avid researchers, collaborative team members, and authorities about instructional strategies and best practices for delivering content as it relates to curriculum standards and student needs. Teachers collaborate with students to determine workflows using apps for writing, reading, creating, solving and more. As a result, students cultivate the skillsets to become content curators, resources creators, and designers in best practices. Collaboration is key to the success of a "mobile first model." No information or learner has to stand alone.

The School is also an "Apple Distinguished School," which is based on the School's integration of Apple technology into the students' learning experience. The School is leading PDE's move towards writing the State standards in curriculum in iTunes U. The School is one of twelve schools in the world that have been chosen to produce and publicize this opportunity.

Dual Enrollment. The School's high school students participate in dual enrollment programs with Drexel University, University of the Arts, Cabrini College, University of Pennsylvania, Johns Hopkins University Center for Talented Youth, and Community College of Philadelphia. Students can earn college credit at the university or college in which they are dual enrolled.

High School Enrichment. The School provides its high school students with several academic experiences that are not offered at other schools in SDP, including BLOOM, Particle Gaming, and Incubator Fellowship.

⁶ Science Olympiad is an extension of the middle school STEM program and is facilitated after school.

⁷ The Roman Catholic High School hosts a city-wide elementary science fair for students in grades 3-8; winners are placed by grade.

- BLOOM is an innovative space where the School works as a team to combine the unique talents of its students to create powerful projects. The goal is to express passion, positivity, and fresh perspective as a generation of leaders, creators, and influencers. In BLOOM, the students learn how to run a business, media agency, and skill sets that we can apply to a variety of fields.
- Particle gaming is a class where a team of gamers will work together to create content, review games and peripherals as well as promoting and building social media channels.
- The Incubator Fellowship was created to provide students with opportunities to work with startup companies who use office space at String Theory Schools. Through this program, students can intern with the company of their choosing and gain skills and experience to develop their passions in a professional environment. Incubators range from educational tech companies to food stylists and fashion designers, all eager to work with students who are passionate about their fields.

Extra-Curricular Activities and Clubs

The School offers a wide variety of clubs and activities for students as set forth in the following table.

<u>Extra-Curricular Activities</u>				
Elementary	<u>Activities</u>		<u>Athletics</u>	
	Middle School	High School	Elementary	Middle/High School
Ambassador's Club	Reading Olympics	Student Council	Basketball (1-4)	Baseball
Art Club	Drone Racing Team	Anime Club	Bowling (3-4)	Basketball
Chess Club	Outdoors Club	Community Service & Environmental Club	Foot Hockey (3-4)	Cheerleading
French Club	Poetry Slam-Spoken Word Club	Math League	Soccer (1-4)	Cross Country
Junior Ballet	Running Club	National Honor Society	Swimming (K-1)	Soccer
Junior Chorus	Science Olympiad	Robotics Club		Softball
Junior Orchestra	Student Ambassadors	Running Club		Tennis (Girls)
	Teen Authors Club	Speech & Debate Club		Track
	Writing Club	Spirit Club		
	Yearbook Club			

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Historical, Current, and Projected Enrollment

The table below shows, by grade level, the School's historical enrollment for the 2016-17 through 2019-20 school years, current enrollment for the 2020-21 school year as of September 15, 2020, and projected enrollment for the 2021-22 through 2024-25 school years. Enrollment counts are as of the October 1 enrollment headcount date, with the exception of the student count for the 2020-21 school year.

Grades	Historical				Current	Projected			
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
K	173	195	220	224	210	200	200	200	200
1	177	187	214	227	225	210	200	200	200
2	175	176	215	217	230	225	210	200	200
3	182	192	203	217	230	230	225	210	200
4	208	211	201	214	225	230	230	225	210
5	232	204	184	230	225	225	230	230	225
6	211	214	196	201	215	225	225	230	230
7	203	204	205	203	212	215	225	225	230
8	194	200	196	196	200	212	215	225	225
9	189	179	149	211	155	200	212	215	225
10	184	168	167	167	200	155	200	212	215
11	233	173	158	160	160	200	155	200	212
12	191	204	159	157	154	160	200	155	200
Total	2,552	2,507	2,467	2,624	2,641	2,687	2,727	2,727	2,772

Student Retention. The table below details student retention for the 2016-17 through 2019-20 school years and the anticipated retention rate for the 2020-21 school year. The numbers for each school year listed below reflect the percentage of students who returned from the prior year.

	2016-17	2017-18	2018-19	2019-20	2020-21
Student Retention	94.0%	92.2%	95.0%	95.0%	94.6%

Student Attendance. The table below provides student attendance percentages for the 2016-17 through 2019-20 school years based on the entire school population.

	2016-17	2017-18	2018-19	2019-20
Attendance Rate	94.0%	94.0%	94.3%	94.0%

Application, Lottery and Waitlist

Application. The School is considered a "niche" school and it attracts students from all over Philadelphia, as well as from some surrounding school districts. Pennsylvania resident students living outside of Philadelphia applying to the School may be admitted only if enrollment for a particular grade is not capped following the admission of Philadelphia resident students. The tuition of non-resident students must be paid by the districts in which such students reside.

The application process consists of submitting an intent to register form during a submission window of not less than two months, and does not include an interview, school tour, or information session attendance requirement.

Lottery. If applications exceed open seats, a lottery is held. Certain students are exempt from the lottery, including current students, siblings of current students, and students whose parents or guardians are essential staff

members. Additionally, students who graduate from grade 8 of the School's sister school, PCSAS, are given admissions preference in grade 9 at the School.

Waitlist. After the lottery, if any, the School maintains a waitlist from which students are drawn to fill vacancies at the School. The waitlist is valid for one year, after which it is purged and reapplication must be made by prospective students.

The following table sets forth the School's waitlist, as of October 1 for the 2016-17 through 2019-20 school years and the waitlist as of September 15, 2020, for the 2020-21 school year.

Grades	2016-17	2017-18	2018-19	2019-20	2020-21
K	991	683	657	516	455
1	473	345	281	238	206
2	390	323	295	226	176
3	353	277	257	218	177
4	347	243	271	183	148
5	371	346	360	224	178
6	403	313	334	257	292
7	372	309	280	246	218
8	276	204	212	201	163
9	1,239	862	944	732	710
10	267	214	203	226	203
11	216	145	120	139	126
12	59	59	43	41	36
Total	5,757	4,323	4,257	3,447	3,088

Demographics and Enrollment

Student Body. The following table sets forth the racial and ethnic diversity and other demographic information of the School's student population from the 2016-17 through 2019-20 school years as of October 1 each school year.

	2016-17	2017-18	2018-19	2019-20
American Indian/Alaskan	0.16%	0.12%	0.16%	0.11%
Asian	8.16%	9.26%	11.98%	13.45%
Black/African American	26.57%	28.72%	27.15%	27.82%
Latino / Hispanic	4.95%	4.65%	8.14%	8.44%
Native Hawaiian/ Other Pacific Islander	0.00%	0.04%	0.12%	0.11%
White/Caucasian	50.94%	49.26%	44.85%	40.96%
Multi-Racial	9.22%	7.94%	7.60%	9.09%
Free/Reduced Lunch	59.00%	61.40%	64.30%	64.81%
Special Education	12.50%	15.20%	15.40%	16.59%
English-Language Learner	0.01%	0.02%	0.04%	0.05%

Academic Performance

The Pennsylvania System of School Assessment. The Pennsylvania System of School Assessment ("PSSA") is an annual assessment administered in Commonwealth classrooms in grades 3 through 8. Every student in grades 3 through 8 is assessed in English language arts and mathematics. Every student in grades 4 and 8 is assessed in science.

School Performance Profile. On June 30, 2012, Pennsylvania enacted legislation ("Act 82"), which introduced the School Performance Profile ("SPP") as a measure (ranging from 1-100) of the relative academic effectiveness of the Commonwealth's public schools, including charter schools. The score is calculated for each individual school rather than for districts as a whole. The SPP is released each fall, and it is calculated from data compiled from a wide range of sources including multiple state agencies, and tests such as the PSSA. The SPP serves as an integral part of the Educator Effectiveness System, which is a method for evaluation of teachers and principals. This scoring was recently adjusted again to comply with federal guidelines outlined in the Every Student Succeeds Act ("ESSA"). The new requirements from the U.S. Department of Education are currently being unveiled to schools to begin implementing the new law.

Keystone Exams. The Keystone Exams are end-of-course assessments designed to assess proficiency in the subject areas of Algebra I, Algebra II, Geometry, Literature, English Composition, Biology, Chemistry, U.S. History, World History, and Civics and Government. Beginning in the 2012-13 school year, the Keystone Exams in Algebra I, Literature, and Biology were developed by PDE and made available for use by school districts, area vocational technical school, and charter schools (including cyber charter schools).

The Keystone Exams are one component of the State's statewide high school graduation requirements. Keystone Exams will help school districts guide students toward meeting state standards. The Keystone Exams are used to help comply with accountability requirements in the federal ESSA. Each state is expected to achieve 95 percent participation on its statewide exams.

In the fall of 2018, the State DOE released the first edition of the Future Ready PA Index, a comprehensive progress report that provides easy-to-understand information about the State's schools and student success. At the end of 2019, the State DOE reported additional state, local education agency, school, and student group-level data via the ESSA State Report Card. The ESSA State Report Card will be accessible via the Future Ready PA Index and will be updated as new data elements become available.

See "RISK FACTORS - Compliance with Federal and State Accountability Requirements."

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Academic Results. The following table sets forth certain academic results for the School and the schools identified by Management as competitors of the School for the 2018-19 school year.⁸ As a result of the COVID-19 pandemic, analogous data is not available for the 2019-20 school year.

Indicator Name*	The School	F. Amedee Bregy School	D. Newlin Fell School	Mastery Charter School at Thomas Campus	John H. Taggart School	Southwark School	High School for Creative and Performing Arts	Christopher Columbus Charter School	Franklin Learning Center	Boys Latin of Philadelphia Charter School	Science Leadership Academy	Global Leadership Academy Charter School	Multicultural Academy Charter School	Discovery Charter School	Ad Prima Charter School	New Foundations Charter School
State Assessment Measures																
<u>Percent Proficient or Advanced:</u>																
ELA/Literature	62.3	27.5	56.6	49.6	32.7	38.6	77.5	69.8	56.3	32.4	84.5	33.0	64.7	45.9	49.8	63.9
Mathematics/Algebra 1	40.7	21.0	40.1	31.7	16.7	22.9	60.9	38.0	38.8	11.6	70.6	11.5	64.7	14.7	24.4	43.7
Science/Biology	66.6	29.2	65.8	53.3	26.4	38.2	55.4	67.2	31.1	42.3	67.5	42.6	43.1	49.1	58.6	59.1
<u>Meeting Annual Academic Growth Expectations (PVAAS):</u>																
ELA/Literature	74.0	86.0	100.0	100.0	100.0	100.0	70.0	67.0	100.0	71.3	71.0	73.0	85.0	70.0	100.0	66.3
Mathematics/Algebra 1	66.7	95.0	81.7	96.3	100.0	96.2	50.0	88.0	50.0	94.8	65.0	82.0	100.0	50.0	100.0	61.5
Science/Biology	73.3	78.5	94.0	81.7	75.5	69.5	50.0	73.5	100.0	74.5	50.0	64.5	100.0	58.5	73.0	68.3
<u>Percent Advanced:</u>																
ELA/Literature	15.0	2.6	18.3	10.9	6.5	6.5	13.6	17.4	3.3	1.1	16.4	3.3	0.0	7.4	11.5	13.6
Mathematics/Algebra 1	15.2	3.9	20.6	9.3	5.7	7.6	13.0	8.9	3.2	0.5	21.8	9.0	0.0	4.0	6.0	14.0
Science/Biology	24.6	10.8	30.7	18.5	6.9	9.2	20.5	29.5	5.0	4.1	18.8	4.7	5.9	7.7	20.0	19.1
On-Track Measures																
English Language Growth and Attainment	62.3	IS	41.8	19.9	29.2	29.6	IS	37.3	26.3	IS	IS	IS	IS	IS	IS	IS
Students with Regular Attendance	84.4	74.0	83.8	77.1	87.1	89.4	95.6	94.5	82.8	86.8	93.9	81.9	80.0	87.2	90.9	94.2
<u>Early Indicators of Success:</u>																
Grade 3 Reading	71.1	45.5	52.9	52.4	21.8	31.6	N/A	69.2	N/A	N/A	N/A	23.7	N/A	53.5	49.4	70.7
Grade 7 Mathematics	21.7	15.8	53.5	24.1	10.2	25.8	N/A	48.4	N/A	2.7	N/A	4.2	N/A	9.5	19.3	31.2
College and Career Measures																
Career Standards Benchmark	100.0	96.9	94.2	86.9	95.3	91.8	91.3	98.4	79.8	95.9	86.9	99.3	100.0	0.0	99.2	99.7
Graduation 4-Year Cohort	98.6	N/A	N/A	89.3	N/A	N/A	88.2	N/A	80.0	83.3	95.3	N/A	98.2	N/A	N/A	96.4
Graduation 5-Year Cohort	99.0	N/A	N/A	93.7	N/A	N/A	94.6	N/A	92.5	95.3	92.2	N/A	98.2	N/A	N/A	95.8
Industry-Based Learning	20.9	N/A	N/A	0.0	N/A	N/A	9.0	N/A	30.1	0.0	28.3	N/A	0.0	N/A	N/A	99.4
Advanced on Industry-Based Competency Assessment	0.0	N/A	N/A	0.0	N/A	N/A	0.0	N/A	8.6	0.0	15.0	N/A	0.0	N/A	N/A	0.0
Rigorous Courses of Study	34.2	N/A	N/A	43.9	N/A	N/A	73.6	N/A	46.4	48.0	21.7	N/A	47.1	N/A	N/A	34.7
Post Secondary Transition Graduates	85.2	N/A	N/A	88.2	N/A	N/A	91.8	N/A	90.1	95.1	91.5	N/A	88.5	N/A	N/A	90.6

* All data is a percentage and is based on the entire student population unless otherwise noted.
Note: if an indicator is marked "IS", this means there is an insufficient sampling to provide data.

⁸ As provided by the Future Ready PA Index website

State- and School-Level Response to COVID-19

Commonwealth Response. In response to the COVID-19 pandemic, Pennsylvania Act 13 of 2020 ("Act 13") was signed into law by Governor Wolf on March 27, 2020. Act 13 allows the governing bodies of school entities to request that the Secretary of Education waive certain Pennsylvania School Code provisions, regulations of the State Board of Education, and standards of PDE, if the waiver directly relates to the school entity's staffing needs or impacts its instructional program or operations for the 2019-20 school year as a result of the Pandemic of 2020. Waiver requests and approvals apply only to the 2019-20 school year.

Under Act 13, a school entity is defined as a school district, area career and technical center, intermediate unit, charter school, cyber charter school, or regional charter school.

Included among other provisions of Act 13 are the following:

- The requirement that all school entities be kept open each school year for at least one hundred eighty (180) instructional days is waived immediately.
- The secretary may order the closure of all school entities until the threat to health and safety caused by the pandemic of 2020 has ended.
- Each school entity shall make a good faith effort to plan to offer continuity of education to students using alternative means during the period of closure. PDE shall provide guidance to school entities and intermediate units may provide technical assistance. A school entity shall submit the plan to PDE. The school entity shall post the plan on its publicly accessible Internet website.
- No employee of any school entity who was employed as of March 13, 2020, shall receive more or less compensation than the employee would otherwise have been entitled to receive from the school entity had the pandemic of 2020 not occurred, had the minimum instructional day requirement not been waived or had the closure of all school entities not been ordered.
- No employee of any school entity who was employed as of March 13, 2020, shall receive more or less credit or contribute more or less than the employee would otherwise have contributed pursuant to the Public School Employees' Retirement Code (relating to retirement for school employees) had the pandemic of 2020 not occurred, had the minimum instructional day requirement not been waived or had the closure of all school entities not been ordered.
- A school entity which was closed as a result of the pandemic of 2020 may not receive less subsidy payments, reimbursements, allocations, tuition or other payments from PDE or another school entity than the school entity would otherwise be entitled to receive for the school year 2019-20 had the pandemic of 2020 not occurred, had the minimum instructional day requirement not been waived or had the closure of all school entities not been ordered. For the time period a charter school, regional charter school or cyber charter school is closed due to the 2020 pandemic, the charter school, regional charter school or cyber charter school shall receive tuition payments based upon the enrollment as of March 13, 2020.

On February 4, 2020, Governor Wolf released his 2020-21 State budget plan, which includes a projected savings of \$280 million gained from proposed charter school funding reductions.

On May 29, 2020, Governor Wolf approved a budget that holds all major education spending at 2019-20 levels, but the budget will be revisited in November 2020 to address the effects of the COVID-19 pandemic.

In the Commonwealth budget for 2020-21, all major education spending for the next twelve months was held at the same level as the prior fiscal year.

SDP's adopted consolidated budget for the 2020-21 fiscal year, which was released in May 2020, includes an increase in charter school funding over the prior fiscal year from \$1,089 million to \$1,203 million.]

School Response. Management opted for the School to open with a fully virtual schedule for the first half of the 2020-21 school year. Conditions permitting, upon return to classes on February 1, 2021, for the second

semester, Management anticipates that the School will move to a hybrid schedule, which it is in the process of planning. The Pennsylvania Department of Education has approved the School's mandated COVID-19 Health and Safety Plan, a copy of which is available on the School's website.

LITIGATION

As of the date of this Limited Offering Memorandum, none of the Borrower or the Corporation is subject to litigation related to its operations. None of the Borrowers or the Corporation is subject to any material pending or threatened litigation or administrative proceedings related to its operations. Litigation may arise in the normal course of business for either the Borrowers or the Corporation. See "RISK FACTORS – Litigation" for an explanation of risks associated with any potential litigation that may arise in the normal course of business for the Borrowers or the Corporation.

CERTAIN FINANCIAL INFORMATION

Revenues

Charter schools in the Commonwealth do not charge tuition, but instead receive funding from the school district in which each charter school student lives based on a statutory formula (derived from budgeted costs for each such school district for the preceding school year). APPENDIX D – "CHARTER SCHOOL LAWS AND FINANCING IN PENNSYLVANIA – Funding for Charter Schools."

Set forth below is the per-pupil funding rate for SDP both regular and special education for the 2016-17 through 2019-20 school years and projected funding rates for the 2020-21 through 2024-25 school years as projected by Management.

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Regular Ed. Rate (\$)	8,142	8,523	9,152	10,128	10,836	11,161	11,496	11,841	12,196
Special Ed. Rate (\$)	24,582	26,489	29,468	28,898	30,442	31,355	32,296	33,265	34,263

See "RISK FACTORS – Commonwealth of Pennsylvania Budget," " – Funding and Future Changes to Charter School Law," and " – Legislative Risk and Local School District Risks."

Indebtedness

As of the Closing Date, the Borrowers and the Corporation will have no Indebtedness outstanding other than in connection with the Series 2020 Bonds.

Under certain circumstances, the Borrowers and the Corporation may incur additional indebtedness, including indebtedness on parity with the Series 2020 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2020 BONDS – The Agreement," " – The Master Indenture," and – The Leases." If any Member or the Corporation incurs additional indebtedness, the Pledged Revenues of the Borrowers available to pay for the Series 2020 Bonds are limited and may be inadequate to timely pay for and discharge the indebtedness with respect to the Series 2020 Bonds. See APPENDIX E — "SUBSTANTIALLY FINAL FORM OF CERTAIN FINANCING DOCUMENTS."

Financial Statements

The audited financial statements of the Corporation for the Fiscal Years ended June 30, 2017, 2018, and 2019, included in this Limited Offering Memorandum in APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION FOR THE FISCAL YEARS ENDED JUNE 30, 2017, 2018, AND 2019," have been audited by Zelenofske Axelrod LLC, Jamison, Pennsylvania (the "Auditor"), to the extent and for the period indicated in its reports thereon. Such financial statements have been included in reliance upon the reports of the Auditor. The Corporation is not aware of any facts that would make such financial statements misleading. These financial statements were prepared using the standards applicable to nonprofit entities. The audited financial statements included in APPENDIX B are an integral part hereof and should be read in their entirety.

Certain unaudited financial statements of the Corporation for the fiscal year ended June 30, 2020 are provided herein. Such unaudited financial statements have been prepared by Management and have not been examined or reviewed by the Auditor or any other independent certified public accountant.

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Statement of Net Position and Statement of Revenues and Expenditures of the Corporation

The following Statement of Net Position summary for the Corporation presents a summary of the Corporation's financial position as of June 30 of each listed Fiscal Year. The Statement of Revenues and Expenditures summary for the Corporation presents a summary of the Corporation's financial activities for the Corporation during the fiscal year, thereby reconciling the beginning and end of year net asset positions contained in the Statement of Net Position summary. Such summary statements are based on the audited financial statements of the Corporation for the Fiscal Years ended June 30, 2017, 2018, and 2019, and the unaudited financial statements of the Corporation for the Fiscal Year ended June 30, 2020.

Such unaudited financial statements have been prepared by Management and have not been examined or reviewed by the Auditor or any other independent certified public accountant.

The Corporation

Statement of Net Position (Governmental Funds)

	As of June 30,			
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
	(Audited)	(Audited)	(Audited)	(Unaudited)
Assets				
Cash and cash equivalents	\$7,151,084	\$8,052,513	\$11,011,052	\$11,456,344
State subsidies receivable	395,550	388,718	383,087	430,993
Federal subsidies receivable	260,136	261,843	153,172	443,423
Local subsidies receivable	292,305	313,478	133,535	372,942
Other receivables	251,132	241,618	105,479	135,275
Due from other funds	487,477	448,931	397,107	791,067
Due from related party	6,436	523,364	163,511	107,858
Inventories	400,865	-	12,541	-
Other current assets	-	-	180	-
Prepaid expenses	1,637,874	1,672,908	1,336,024	2,458,310
Total assets	\$10,882,859	\$11,903,373	\$13,695,688	\$16,196,212
Liabilities and Fund Balance				
Liabilities:				
Accounts payable & accrued expenses	\$1,398,078	\$1,694,323	\$1,308,490	\$1,349,127
Accrued salaries and benefits	1,684,459	1,743,192	2,233,780	2,046,667
Due to affiliates	11,938	-	-	-
Due to related party	3,053	22,555	-	-
Deferred revenue	428,848	-	1,136	22,812
Total liabilities	\$3,526,376	\$3,460,070	\$3,543,406	\$3,418,606
Fund Balance:				
Non-spendable	2,038,739	1,672,908	1,336,024	2,458,310
Committed - capital improvements	2,296,000	3,000,000	3,000,000	3,000,000
Committed - unforeseen contingencies	800,000	-	-	-
Committed - capital technology improvements	-	1,500,000	1,500,000	1,500,000
Committed - future debt service bonds	-	1,856,483	1,856,483	1,856,483
Unassigned	2,221,744	413,912	2,459,775	3,962,813
Total Fund Balance	\$7,356,483	\$8,443,303	\$10,152,282	\$12,777,606
Total Liabilities and Fund Balance	\$10,882,859	\$11,903,373	\$13,695,688	\$16,196,212

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The Corporation**Statement of Revenues and Expenditures
(Governmental Funds)****Fiscal Year Ended****June 30,**

	<u>2017</u> (Audited)	<u>2018</u> (Audited)	<u>2019</u> (Audited)	<u>2020</u> (Unaudited)
Revenue				
Local educational agency assistance	\$25,923,893	\$27,876,206	\$31,684,940	\$33,870,359
Other local sources	341,890	356,565	360,393	396,332
State sources	515,994	482,549	477,635	480,841
Federal sources	2,424,211	2,796,574	2,854,863	2,818,174
Total Revenues	\$29,205,988	\$31,511,894	\$35,377,831	\$37,565,706
Expenditures				
Instruction	\$13,704,363	\$15,415,796	\$17,534,052	\$18,325,582
Support services	13,111,118	13,549,716	14,488,373	15,564,773
Non-instructional services	391,461	406,263	542,494	433,018
Debt service	279,190	138,843	138,842	-
Capital outlay	1,821,997	914,456	965,091	617,009
Total Expenditures	\$29,308,129	\$30,425,074	\$33,668,852	\$34,940,382
Excess (Deficit) Revenues Over Expenditures	\$(102,141)	\$1,086,820	\$1,708,979	\$2,625,324
Other Financing Sources (Uses):				
Proceeds from capital lease obligations	400,749	-	-	-
Net Change in Fund Balance	\$298,608	\$1,086,820	\$1,708,979	\$2,625,324
Fund balances-beginning	7,057,875	7,356,483	8,443,303	10,152,282
Fund balances-ending	\$7,356,483	\$8,443,303	\$10,152,282	\$12,777,606

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Financial Projections

Payment by the Bond Trustee of principal of and interest on the Series 2020 Bonds is dependent upon the Corporation's ability to make payments of Base Rentals to the Borrowers and the Borrowers' ability to make payments on the Series 2020 Bonds. The Corporation's ability to make rental payments when due under the Leases depends on the timely receipt of School District Payments.

The Corporation has operated the School since 2000. The Corporation's projections of revenues and expenses for the fiscal years ended June 30, 2021 through 2025 included in APPENDIX C – "FINANCIAL PROJECTIONS OF THE CORPORATION" (the "Projections") were prepared by management in consultation with the Business Manager, and have not been independently verified by any other party. No feasibility studies have been conducted with respect to operations of the Corporation pertinent to the Series 2020 Bonds. The projections prepared by the Corporation are "forward-looking statements" and are subject to the general qualifications and limitations described under "INTRODUCTION – Forward-Looking Statements" with respect to such statements. Neither the Authority nor the Underwriter has independently verified such projections, and make no representation nor give any assurance that such projections, or the assumptions underlying them, are complete or correct. Further, the projections relate only to a limited number of fiscal years and consequently do not cover the entire period that the Series 2020 Bonds will be outstanding.

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

No assurance can be given that the results described in the projections will be achieved, or that there has been no change in underlying considerations since the date of the Limited Offering Memorandum. Refer to the following pages to review the Projections, their underlying assumptions, and the various factors that could cause actual results to differ significantly from projected results.

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

See "RISK FACTORS – Reliance on Financial Projections."

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CORPORATION FOR FISCAL YEARS ENDED JUNE
30, 2017, 2018, AND 2019**

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**PHILADELPHIA PERFORMING ARTS:
A STRING THEORY CHARTER SCHOOL**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
FOR THE YEAR ENDED JUNE 30, 2019

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PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
FOR THE YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Philadelphia Performing Arts: A String Theory Charter School (a nonprofit organization) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Philadelphia Performing Arts: A String Theory Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 financial statements are free from material misstatement. The financial statements of DeMedici Corporation and DeMedici II Corporation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Philadelphia, Pennsylvania
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Opinions

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Philadelphia Performing Arts: A String Theory Charter School as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the School adopted the provisions of GASB Statement No. 83, "*Certain Asset Retirement Obligations*." The adoption of this statement had no effect on the reported amounts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 4-7 and 43-47, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Philadelphia Performing Arts: A String Theory Charter School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements.



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Philadelphia, Pennsylvania
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The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2019, on our consideration of Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting and compliance.

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
December 16, 2019

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

The Board of Trustees of Philadelphia Performing Arts: A String Theory Charter School (the School) offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented herein in conjunction with the School's financial statements.

Financial Highlights

- Total governmental activities revenues for the year ended June 30, 2019 were \$35,377,831 representing an increase of \$3,865,937 from June 30, 2018.
- At June 30, 2019, the School reported an ending governmental fund balance of \$10,152,282 representing an increase of \$1,708,979 from June 30, 2018.
- The School's cash and cash equivalents balance at June 30, 2019 was \$11,057,484, representing an increase of \$2,941,058 from June 30, 2018.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the School's financial statements. The School's financial statements as presented comprise four components: (1) management's discussion and analysis (this section), (2) the basic financial statements, (3) the required supplementary information, and (4) the single audit section.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the School's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *statement of activities* presents information showing how the School's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. expenditures accrued in one year but paid in subsequent years).

The government-wide financial statements report on the function of the School that is principally supported by subsidies from school districts whose constituents attend the School. The School's function is to provide an alternative educational opportunity.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

Overview of the Financial Statements (Continued)

Fund Financial Statements

A fund is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The School, like governmental type entities, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School has three fund types: the governmental general fund, the proprietary fund and the fiduciary agency fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Supplementary Information

The governmental fund budgetary comparison schedule and the pension and OPEB information comprise required supplementary information presented for purposes of additional analysis and are prepared using a basis consistent with accounting principles generally accepted in the United States of America ("GAAP") for state reporting requirements.

Single Audit Requirements

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Government-Wide Financial Analysis

Management has adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which requires an analysis of current and prior-year balances.

	<u>2019</u>	<u>2018</u>
Current Assets	\$ 13,497,603	\$ 10,655,368
Noncurrent Assets	<u>3,291,280</u>	<u>4,097,579</u>
Total Assets	<u>16,788,883</u>	<u>14,752,947</u>
Deferred Outflows of Resources	<u>2,195,349</u>	<u>3,574,373</u>
Current Liabilities	3,598,336	3,643,480
Noncurrent Liabilities	<u>16,831,000</u>	<u>18,513,000</u>
Total Liabilities	<u>20,429,336</u>	<u>22,156,480</u>
Deferred Inflows of Resources	<u>2,980,000</u>	<u>2,660,000</u>
Net Position		
Net Investment in Capital Assets	3,291,280	2,785,398
Unrestricted (Deficit)	<u>(7,716,384)</u>	<u>(9,274,558)</u>
Total Net Position (Deficit)	<u>\$ (4,425,104)</u>	<u>\$ (6,489,160)</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

Overview of the Financial Statements (Continued)

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$4,425,104 as of June 30, 2019.

Government-Wide Financial Analysis

The School's revenues are predominately received from the School District of Philadelphia, based on student enrollment. For the year ended June 30, 2019, the School's revenues of \$36,573,176 exceeded its expenditures of \$34,509,120 by \$2,064,056.

	<u>2019</u>	<u>2018</u>
Revenues		
Local Educational Agencies	\$ 31,684,940	\$ 27,876,206
Other Local Sources	360,393	356,565
State Sources	477,635	482,549
Federal Sources	2,854,863	2,796,574
Food Services	<u>1,195,345</u>	<u>1,192,819</u>
Total Revenues	<u>36,573,176</u>	<u>32,704,713</u>
Expenses		
Instructional Programs	17,954,492	16,261,164
Pupil Personnel Services	863,078	835,237
Instructional Staff Services	533,365	629,897
Administrative Services	4,272,455	4,008,287
Pupil Health Services	257,041	232,152
Buisness Services	604,480	576,003
Operation and Maintenance of Plant Services	7,623,793	7,043,102
Other Support Services	497,222	474,210
Student Activities	543,099	419,720
Food Services	1,357,431	1,069,581
Interest Expense	<u>2,664</u>	<u>5,276</u>
Total Expenses	<u>34,509,120</u>	<u>31,554,629</u>
Change in Net Position	2,064,056	1,150,084
Net Position (Deficit) - Beginning	<u>(6,489,160)</u>	<u>(7,639,244)</u>
Net Position (Deficit) - Ending	<u>\$ (4,425,104)</u>	<u>\$ (6,489,160)</u>

Governmental Funds

The focus of the School's *governmental fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, the fund balance may serve as a useful measure of a School's net resources available for spending for program purposes at the end of the year.

The general fund is the chief operating fund of the School. At the end of the current year, the unassigned fund balance of the general fund was \$2,459,775 while the total general fund balance was \$10,152,282.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

Overview of the Financial Statements (Continued)

General Fund Budgetary Highlights

There were no annual operating budget amendments made during the year that were required to be submitted to the Commonwealth of Pennsylvania.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2019, the School's net investment in capital assets for its total governmental activities and business-type activity totaled \$3,291,280 (net of accumulated depreciation and related debt). This net investment in capital assets includes classroom and office furniture, computers, classroom materials, student transportation vehicles and leasehold improvements.

Long-Term Debt

At June 30, 2019, the School's governmental activities and business-type activity had no outstanding long-term debt.

Economic Factors and Next Year's Budgets and Rates

The School does not foresee any substantial variations with next year's economic factors, budgets or rates.

Future Events that will Financially Impact the School

The School does not foresee any future events at this time that will financially impact the School.

Contacting the School's Financial Management

The financial report is designed to provide interested parties a general overview of the School's finances. Questions regarding any of the information provided in this report should be addressed to: Santilli & Thomson, LLC, 601 Route 73 North, Suite 302 Marlton, NJ 08053.

Component Units

DeMedici Corporation ("DeMedici") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that DeMedici is legally separate from the School. Complete financial statements of DeMedici can be obtained at 2600 South Broad Street, Philadelphia, Pennsylvania 19145.

DeMedici II Corporation ("DeMedici II") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that DeMedici II is legally separate from the School. Complete financial statements of DeMedici II can be obtained at 1600 Vine Street, Philadelphia, Pennsylvania 19102.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities	Business- Type Activities	Totals	Component Unit - DeMedici	Component Unit - DeMedici II
<u>Assets</u>					
Cash and Cash Equivalents	\$ 11,011,052	\$ 46,432	\$ 11,057,484	\$ 498,821	\$ 38,718
Restricted Cash and Cash Equivalents	-	-	-	-	5,234,740
State Subsidies Receivable	383,087	1,157	384,244	-	-
Federal Subsidies Receivable	153,172	25,296	178,468	-	-
Local Subsidies Receivable	133,535	-	133,535	-	-
Other Receivables	105,479	-	105,479	-	-
Internal Balances	397,107	(397,107)	-	-	-
Due From Related Parties	163,511	-	163,511	2,359,372	-
Prepaid Expenses - Current Portion	209,021	126,137	335,158	2,798	15,503
Prepaid Expenses, Net of Current Portion	1,127,003	-	1,127,003	-	-
Inventories	12,541	-	12,541	-	-
Other Current Assets	180	-	180	-	-
Capital Assets:					
Land	-	-	-	-	12,376,795
Buildings and Improvements	-	-	-	2,456,570	37,820,925
Leasehold Improvements	2,496,685	-	2,496,685	-	-
Furniture and Equipment	705,894	429,650	1,135,544	-	1,026,255
Transportation Equipment	67,338	-	67,338	-	-
Computers and Software	3,140,900	-	3,140,900	-	1,250,657
Construction in Progress	-	-	-	-	358,065
Less: Accumulated Depreciation	(3,231,841)	(317,346)	(3,549,187)	(881,848)	(7,441,469)
Bond Issuance Costs	-	-	-	-	959,397
Deferred Rent	-	-	-	-	1,306,867
Total Assets	<u>16,874,664</u>	<u>(85,781)</u>	<u>16,788,883</u>	<u>4,435,713</u>	<u>52,946,453</u>
<u>Deferred Outflows of Resources</u>					
Related to OPEB	28,293	-	28,293	-	-
Related To Pensions	<u>2,167,056</u>	-	<u>2,167,056</u>	-	-
Total Deferred Outflows of Resources	<u>2,195,349</u>	-	<u>2,195,349</u>	-	-

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2019

	Governmental Activities	Business- Type Activities	Totals	Component Unit - DeMedici	Component Unit - DeMedici II
<u>Liabilities</u>					
Accounts Payable and Accrued Expenses	1,308,490	54,930	1,363,420	11,686	359,644
Accrued Salary and Benefits	2,233,780	-	2,233,780	-	-
Deferred Revenue	1,136	-	1,136	-	-
Due To Related Parties	-	-	-	-	2,545,275
Long-term Obligations:					
Due Within One Year:					
Long-term Debt	-	-	-	-	900,000
Due Beyond One Year:					
Long-term Debt, Net of Unamortized					
Premium of \$290,677	-	-	-	-	52,208,317
OPEB Liability	701,000	-	701,000	-	-
Pension Liability	16,130,000	-	16,130,000	-	-
Total Liabilities	20,374,406	54,930	20,429,336	11,686	56,013,236
<u>Deferred Inflows of Resources</u>					
Related to OPEB	135,000	-	135,000	-	-
Related to Pensions	2,845,000	-	2,845,000	-	-
Total Deferred Inflows of Resources	2,980,000	-	2,980,000	-	-
<u>Net Position</u>					
Net Investment in Capital Assets	3,178,976	112,304	3,291,280	-	-
Unrestricted (Deficit)	(7,463,369)	(253,015)	(7,716,384)	4,424,027	(3,066,783)
Total Net Position (Deficit)	<u>\$ (4,284,393)</u>	<u>\$ (140,711)</u>	<u>\$ (4,425,104)</u>	<u>\$ 4,424,027</u>	<u>\$ (3,066,783)</u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
JUNE 30, 2019

Functions	Expenses	Charges for Service	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position				
				Governmental Activities	Business-Type Activities	Total	Component Unit DeMedici	Component Unit DeMedici II
Governmental activities:								
Instruction:								
Regular Instruction Programs	\$ 13,591,647	\$ -	\$ 2,933,718	\$ (10,657,929)	\$ -	\$ (10,657,929)	\$ -	\$ -
Special Instruction Programs	4,336,180	-	-	(4,336,180)	-	(4,336,180)	-	-
Other Instructional Programs	26,665	-	-	(26,665)	-	(26,665)	-	-
Support Services:								
Pupil Personnel	863,078	-	-	(863,078)	-	(863,078)	-	-
Instructional Staff	533,365	-	-	(533,365)	-	(533,365)	-	-
Administration	4,272,455	-	-	(4,272,455)	-	(4,272,455)	-	-
Pupil Health	257,041	-	47,693	(209,348)	-	(209,348)	-	-
Business	604,480	-	-	(604,480)	-	(604,480)	-	-
Operation and Maintenance of Plant Services	7,623,793	-	351,087	(7,272,706)	-	(7,272,706)	-	-
Central	497,222	-	-	(497,222)	-	(497,222)	-	-
Operation of Non-Instructional Services:								
Student Activities	178,290	-	-	(178,290)	-	(178,290)	-	-
Community Service	364,809	-	-	(364,809)	-	(364,809)	-	-
Debt Service	<u>2,664</u>	<u>-</u>	<u>-</u>	<u>(2,664)</u>	<u>-</u>	<u>(2,664)</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	33,151,689	-	3,332,498	(29,819,191)	-	(29,819,191)	-	-
Business-Type Activities								
Food Service	<u>1,357,431</u>	<u>401,782</u>	<u>793,563</u>	<u>-</u>	<u>(162,086)</u>	<u>(162,086)</u>	<u>-</u>	<u>-</u>
Total Primary Government Activities	<u>\$ 34,509,120</u>	<u>\$ 401,782</u>	<u>\$ 4,126,061</u>	<u>(29,819,191)</u>	<u>(162,086)</u>	<u>(29,981,277)</u>	<u>-</u>	<u>-</u>
Component Units								
DeMedici Corporation	<u>329,726</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(329,726)</u>	<u>-</u>
DeMedici II Corporation	<u>5,066,746</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,066,746)</u>
General Revenues								
Local Educational Agencies				31,684,940	-	31,684,940	-	-
Rental Income				-	-	-	793,961	4,345,859
Other Revenue				<u>360,393</u>	<u>-</u>	<u>360,393</u>	<u>1,098</u>	<u>112,053</u>
Total General Revenue				<u>32,045,333</u>	<u>-</u>	<u>32,045,333</u>	<u>795,059</u>	<u>4,457,912</u>
Change in Net Position				2,226,142	(162,086)	2,064,056	465,333	(608,834)
Net Position (Deficit) - Beginning of Year				<u>(6,510,535)</u>	<u>21,375</u>	<u>(6,489,160)</u>	<u>3,958,694</u>	<u>(2,457,949)</u>
Net Position (Deficit) - End of Year				<u>\$ (4,284,393)</u>	<u>\$ (140,711)</u>	<u>\$ (4,425,104)</u>	<u>\$ 4,424,027</u>	<u>\$ (3,066,783)</u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2019

	<u>General Fund</u>
<u>Assets</u>	
Assets	
Cash	\$ 11,011,052
State Subsidies Receivable	383,087
Federal Subsidies Receivable	153,172
Local Subsidies Receivable	133,535
Other Receivables	105,479
Due from Related Parties	163,511
Due from Other Funds	397,107
Inventories	12,541
Other Current Assets	180
Prepaid Expenses	<u>1,336,024</u>
Total Assets	<u><u>\$ 13,695,688</u></u>
<u>Liabilities and Fund Balance</u>	
Liabilities	
Accounts Payable and Accrued Expenses	\$ 1,308,490
Accrued Salary and Benefits	2,233,780
Deferred Revenue	<u>1,136</u>
Total Liabilities	<u><u>3,543,406</u></u>
Fund Balance	
Nonspendable	1,336,024
Committed - Capital Improvements	3,000,000
Committed - Capital Technology Improvements	1,500,000
Committed - Future Debt Service Bonds	1,856,483
Unassigned	<u>2,459,775</u>
Total Fund Balance	<u><u>10,152,282</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 13,695,688</u></u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total Fund Balance for Governmental Fund		\$ 10,152,282
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Total Net Position Reported for Governmental Activities in the Statement of Net Position is Different because:

Capital Assets used in governmental funds are not financial resources and therefore, are not reported in the fund. Those assets consist of:

Leasehold Improvements	2,496,685	
Furniture and Equipment	705,894	
Transportation Equipment	67,338	
Software	3,140,900	
Less: Accumulated Depreciation	(3,231,841)	
		3,178,976

Long-term liabilities that pertain to the governmental fund, including notes payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Those liabilities consist of:

Net OPEB liability, net of contractual liability	(701,000)	
Net pension liability, net of contractual liability	(16,130,000)	
		(16,831,000)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the government fund. Balances at year end are:

Deferred outflows of resources related to OPEB	28,293	
Deferred outflows of resources related to pensions	2,167,056	
Deferred inflows of resources related to OPEB	(135,000)	
Deferred inflows of resources related to pensions	(2,845,000)	
		(784,651)

Total Net Position (Deficit) of Governmental Activities		\$ <u>(4,284,393)</u>
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The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2019

	General Fund
Revenues	
Local Educational Agency Assistance	\$ 31,684,940
Other local sources	360,393
State sources	477,635
Federal sources	<u>2,854,863</u>
Total Revenues	<u>35,377,831</u>
Expenditures	
Instruction	17,534,052
Support Services	14,488,373
Non-Instructional Services	542,494
Debt Service	138,842
Capital Outlays	<u>965,091</u>
Total Expenditures	<u>33,668,852</u>
Net Change in Fund Balance	1,708,979
Fund Balance - Beginning of Year	<u>8,443,303</u>
Fund Balance - End of Year	<u>\$ 10,152,282</u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2019

Net Change in Fund Balance - Total Governmental Fund \$ 1,708,979

Amounts Reported for Governmental Activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities, assets are capitalized and the cost is allocated over
their estimated useful lives and reported as depreciation expense, as follows:

Capital Outlays	965,091	
Depreciation Expense	<u>(567,082)</u>	
		398,009

The governmental fund reports repayments of capital lease obligations as
expenditures. In the statement of net position, however, issuing debt
repayment of principal reduces the liability. The net effect of these
differences in the treatment of capital lease obligations, is as follows:

Repayments of capital lease obligations	<u>136,178</u>	
		136,178

The governmental fund reports pension contributions as expenditures. However,
in the statement of activities, the cost incurred for future pension benefits is
reported as pension expense:

Cost of benefits earned net of employee contributions	<u>(17,024)</u>	
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Change in Net Position of Governmental Activities		<u>\$ 2,226,142</u>
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The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2019

	<u>Enterprise Fund</u>
	<u>Food Service</u>
	<u>Fund</u>
<u>Assets</u>	
Assets	
Current Assets:	
Cash	\$ 46,432
State Subsidies Receivable	1,157
Federal Subsidies Receivable	25,296
Prepaid Expenses	<u>126,137</u>
Total Current Assets	<u>199,022</u>
Capital Assets:	
Furniture and Equipment	429,650
Less: Accumulated Depreciation	<u>(317,346)</u>
Total Capital Assets, Net	<u>112,304</u>
Total Assets	<u><u>\$ 311,326</u></u>
<u>Liabilities</u>	
Liabilities	
Current Liabilities:	
Accounts Payable	\$ 54,930
Due to General Fund	<u>397,107</u>
Total Current Liabilities	452,037
<u>Net Position</u>	
Net Investment in Capital Assets	112,304
Net Position - Unrestricted	<u>(253,015)</u>
Total Net Position	<u>(140,711)</u>
Total Liabilities and Net Position	<u><u>\$ 311,326</u></u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
Operating Revenues	
Food Service Revenues	<u>\$ 401,782</u>
Operating Expenses	
Management Service Costs	982,357
Administrative	79,370
Salaries and Related Benefits	243,461
Depreciation	<u>52,243</u>
Total Operating Expenses	<u>1,357,431</u>
Operating Loss	<u>(955,649)</u>
Nonoperating Revenues:	
Federal Sources	760,143
State Sources	<u>33,420</u>
Total Nonoperating Revenues	<u>793,563</u>
Change In Net Position	(162,086)
Net Position - Beginning of Year	<u>21,375</u>
Net Position (Deficit) - End of Year	<u><u>\$ (140,711)</u></u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2019

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
Cash Flows From Operating Activities	
Cash Received From (Paid To)	
Food Services	\$ 401,782
Payments to Suppliers	(1,029,063)
Payments to Employees	<u>(243,461)</u>
Net Cash Used in Operating Activities	<u>(870,742)</u>
Cash Flows Used in Investing Activities	
Additions of Property and Equipment	<u>(23,938)</u>
Cash Flows From Non-Capital Financing Activities	
Federal Sources	886,724
State Sources	42,091
Internal Balances	<u>(51,616)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>877,199</u>
Net Decrease in Cash	(17,481)
Cash, Beginning of Year	<u>63,913</u>
Cash, End of Year	<u>\$ 46,432</u>
Reconciliation of Operating Loss to Net Cash Used in	
Operating Activities	
Operating Loss	\$ (955,649)
Adjustments to Reconcile Operating Loss to Net Cash	
Used in Operating Activities	
Depreciation Expense	52,243
Commodities Expense	44,583
Change in Assets and Liabilities	
Accounts Payable	7,490
Prepaid Expenses	<u>(19,409)</u>
Net Cash Used in Operating Activities	<u>\$ (870,742)</u>

Noncash Transactions:

The School received commodities during fiscal year 2019 totaling \$44,583

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND
JUNE 30, 2019

	<u>Student Activities</u>
<u>Assets</u>	
Cash	\$ 494,138
<u>Liabilities</u>	
Due to Student Groups	<u>494,138</u>
Total Liabilities	<u>494,138</u>
<u>Net Position</u>	
Unrestricted	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Philadelphia Performing Arts: A String Theory Charter School (the School) is organized as a nonprofit corporation in Pennsylvania to operate a charter school in accordance with Pennsylvania Act 22 of 1997 (the "Act") and is operated under a charter school contract ending on June 30, 2019. The School is located in Philadelphia, Pennsylvania. During the 2018-2019 school year, the School served students in grades K through 12.

The School has financial accountability and control over all activities related to the students' education. The School receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. The reporting entity of the School is based upon criteria set forth by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity* as amended by GASB Statement No. 61, *The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and No. 34* and GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and 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 accompanying financial statements present the activities of the School. The School is not a component unit of another reporting entity. The decision to include a potential component unit in the School's reporting entity is based on several criteria, including legal standing, dependency, and financial accountability. As described below, the School has identified two component units.

Component Units

DeMedici Corporation ("DeMedici") and DeMedici II Corporation ("DeMedici II") are legally separate, tax-exempt component units of the School. DeMedici and DeMedici II were organized to acquire and construct the School's facilities. Although the School does not control the timing or amounts of receipts from DeMedici and DeMedici II, the majority of resources and income thereon that DeMedici and DeMedici II hold are restricted to the activities of the School. Because these restricted resources held by DeMedici and DeMedici II can only be used by or for the benefit of the School, DeMedici and DeMedici II are considered component units of the School and are discretely presented in the School's financial statements.

Basis of Presentation

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the School's accounting policies are described below.

The School adopted statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*, which identifies the hierarchy of generally accepted accounting principles in the context of the current governmental financial reporting environment.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

DeMedici and DeMedici II are accounted for under GAAP as applied to not-for-profit entities and use the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. GAAP for not-for-profit entities is promulgated by the Financial Accounting Standards Board (FASB).

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report on the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of the School's function are offset by program revenues. These statements include the financial activities of the primary government; fiduciary funds are excluded.

The fund financial statements (governmental fund balance sheet and statement of governmental fund revenues, expenditures and changes in fund balance) report on the School's general fund.

C) Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements:

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual basis accounting.

The School reports the following major governmental fund:

General Fund – The general fund is the operating fund of the School and accounts for all operating revenues and expenditures of the School.

The School reports the following proprietary fund:

Food Service Fund – An enterprise fund is required to be used to account for operations for which a fee is charged to external users for goods and services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third-party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Fund Financial Statements (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the School's enterprise fund are charges to students for sales of food. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The School reports the following fiduciary agency fund:

Student Activities Fund – The agency fund is used to account for assets held by the School for student groups and is managed by the students. The agency fund is purely custodial in nature and does not involve a measurement of operations.

Net Position

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, classifies net position into three components – net investment in capital assets; restricted; and unrestricted.

These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.
- Restricted – This component of net position consists of constraints placed on the use of net assets through external constraints imposed by creditors such as through debt covenants, grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Balance Classification Policies and Procedures

The School follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the classification of the School's fund balance into five components: nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as follows:

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Fund Balance Classification Policies and Procedures (Continued)

- Nonspendable – This category is for amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to remain intact. The School's nonspendable fund balance comprises prepaid expenses.
- Restricted – This category is the part of the fund balance that is restricted to be spent for a specific purpose. The constraints on these amounts must be externally imposed by creditors, grantors, contributors or laws or regulations of other governments or by enabling legislation.
- Committed – This category is the portion of the fund balance that can only be used for specific purposes as a result of formal action by the School's highest level of authority.
- Assigned – This category reflects funds that the School intends to use for a specific purpose but is not considered restricted or committed.
- Unassigned – This category represents the part of the spendable fund balance that has not been categorized as nonspendable, restricted, committed, or assigned.

Budgets and Budgetary Accounting

The School adopts an annual budget on a basis consistent with GAAP for the general fund. The School is required to present the adopted and final budgeted revenues and expenditures for the general fund that were filed and accepted by the Labor, Education and Community Services Comptroller's Office

Use of Estimates

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

Cash and Cash Equivalents

The School's cash consists of cash on hand and demand deposits. For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Prepaid Expenses and Prepaid Rent

Prepaid expenses at June 30, 2019 include amounts for payments to vendors for services applicable to future accounting periods such as rental payments, insurance premiums and retainage for professional services.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

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

Receivables

Receivables primarily consist of amounts due from federal, state and local authorities. Receivables are stated at the amount management expects to collect. As of June 30, 2019, based on historical experience, no allowance for doubtful accounts has been established.

Capital Assets

The School's capital assets, which include leasehold improvements and furniture and equipment, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a threshold level of \$2,500 for capitalizing assets. The School does not possess any infrastructure.

The infrastructure is owned by DeMedici and DeMedici II, which are shown discretely. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the assets, which range from five to thirty-nine years.

Deferred Outflows / Inflows of Resources

Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of net position and related disclosures. In compliance with Statement No. 63, the statement of net position includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Advertising Costs

All costs associated with advertising and promotions are expensed in the year incurred.

Income Tax Status

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Uncertain Tax Positions

The School accounts for uncertainty in income taxes in which tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of June 30, 2019, the School had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. Additionally, the School had no interest or penalties related to income taxes.

The School files an income tax return in the U.S. federal jurisdiction. With few exceptions, the School is no longer subject to U.S. federal tax examinations by taxing authorities for years before June 30, 2015.

Pension Plan and OPEB Plan

For purposes of measuring net pension liability and net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Public School Employee's Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms and investments are reported at fair value.

Adoption of Government Accounting Standards Board Statements

The School adopted the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations*. The adoption of this Statement had no effect on the reported amounts.

Pending Changes in Accounting Principles

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The School is required to adopt Statement No. 84 for its fiscal year 2020 financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. The School is required to adopt Statement No. 87 for its fiscal year 2021 financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The School is required to adopt Statement No. 88 for its fiscal year 2020 financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The School is required to adopt Statement No. 89 for its fiscal year 2021 financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Pending Changes in Accounting Principles (Continued)

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61*. The School is required to adopt Statement No. 90 for its fiscal year 2020 financial statements.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The School is required to adopt Statement No. 90 for its fiscal year 2021 financial statements.

The School has not yet completed the various analyses required to estimate the financial statement impact of these new pronouncements.

NOTE 2 CASH, RESTRICTED CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, the School's, DeMedici's and DeMedici II's deposits may not be returned to the School, DeMedici and DeMedici II. The School, DeMedici and DeMedici II monitor custodial credit risk by periodically reviewing the Federal Deposit Insurance Corporation's ("FDIC") limits and published credit ratings of its depository banks. Accounts are insured by the FDIC up to \$250,000 for all accounts kept at one financial institution. Under Pennsylvania Act 72, financial institutions pledge collateral on a pooled basis to secure public deposits in excess of FDIC insurance limits. The School's accounts are covered under this Act.

As of June 30, 2019, the custodial risk is as follows:

	Governmental Activities	Business-Type Activity	Component Unit - DeMedici	Component Unit - DeMedici II
Total bank balance exposed to credit risk	\$ 11,189,724	\$ 46,432	\$ 274,374	\$ 5,288,809
Amount insured by FDIC	<u>500,000</u>	<u>-</u>	<u>250,000</u>	<u>304,069</u>
Amount collateralized under Act 72	<u>\$ 10,689,724</u>	<u>\$ 46,432</u>	<u>\$ 24,374</u>	<u>\$ 4,984,740</u>

NOTE 3 RECEIVABLES

Receivables at June 30, 2019 primarily consist of amounts due from federal, state, and local authorities. All receivables are considered collectible due to the stable condition of the state and private programs.

A summary of receivables is as follows:

<u>Receivables</u>	Governmental Activities	Business-Type Activity
Federal	\$ 153,172	\$ 25,296
State	383,087	1,157
Local	<u>133,535</u>	<u>-</u>
	<u>\$ 669,794</u>	<u>\$ 26,453</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 4 LOCAL EDUCATIONAL AGENCY ASSISTANCE (REVENUE)

The School receives funding from the School District of Philadelphia (the "School District") on a monthly basis based on enrollment. The rate of funding per student is determined on an annual basis.

For each non-special education student enrolled, charter schools receive no less than the budgeted total expenditure per average daily membership of the prior school as defined by the Act. For the year ended June 30, 2019, the rate for most of the students was \$9,152 per year per student, plus additional funding for special education students and transportation. The annual rate is paid monthly and is prorated if a student enters or leaves during the year. Total revenue from student enrollment was \$31,684,940 for the year ended June 30, 2019.

NOTE 5 CAPITAL ASSETS, NET

Capital asset activity for the year ended June 30, 2019, was as follows:

<u>Governmental Activities</u>	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Leasehold Improvements	\$ 2,392,189	\$ 104,496	\$ -	\$ 2,496,685
Furniture and Equipment	602,044	103,850	-	705,894
Transportation Equipment	67,338	-	-	67,338
Computers and Software	2,384,155	756,745	-	3,140,900
Less: Accumulated Depreciation	(2,664,759)	(567,082)	-	(3,231,841)
Capital Assets, Net	<u>\$ 2,780,967</u>	<u>\$ 398,009</u>	<u>\$ -</u>	<u>\$ 3,178,976</u>

Depreciation expense for the year ended June 30, 2019, was \$567,082 for governmental activities.

<u>Business-Type Activities</u>	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Furniture and Equipment	\$ 405,712	\$ 23,938	\$ -	\$ 429,650
Less: Accumulated Depreciation	(265,103)	(52,243)	-	(317,346)
Capital assets, net	<u>\$ 140,609</u>	<u>\$ (28,305)</u>	<u>\$ -</u>	<u>\$ 112,304</u>

Depreciation expense for the year ended June 30, 2019, was \$52,243 for business-type activities.

NOTE 6 OBLIGATIONS UNDER LEASES

Capital Lease

In September 2016, the School entered into a three-year agreement with Apple Financial to lease computers at a cost of \$400,749. The agreement has an annual interest rate of 2.08% and is payable in annual installments of \$138,790. The lease obligation was paid in full during fiscal year 2019.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 6 OBLIGATIONS UNDER LEASES (CONTINUED)

Changes in capital lease obligations were as follows for the year ended June 30, 2019:

Balance, July 1, 2018	\$ 136,178
Additions	-
Repayments of principal	(136,178)
Balance, June 30, 2019	<u>\$ -</u>

Interest expense on the capital leases was \$2,664 for the year ended June 30, 2019.

NOTE 7 RELATED-PARTY TRANSACTIONS

Facility Leasing Arrangements

On June 1, 2013, the School entered into a 30-year non-cancelable lease with DeMedici for the rental of its buildings at 2600 South Broad Street, 2630 South Broad Street and 2636 South Broad Street, Philadelphia, PA. Base rentals are due in increasing amounts over the term of the lease. The School paid base rentals of \$499,038 and additional rent, as defined in the lease, of \$250,000 to DeMedici during the year ended June 30, 2019.

On June 1, 2013, the School entered into a 30-year non-cancelable operating lease for the rental of its facilities with DeMedici II. The lease will expire on June 15, 2043. Rent expense under the lease, which includes base rent recognized ratably over the term of the lease and additional rent, as defined in the lease agreement, was \$4,420,262 for the year ended June 30, 2019. All of the School's assets are pledged as collateral with the leases.

The following is a schedule of future minimum lease payments under the operating leases at June 30, 2019:

<u>Year ending June 30:</u>	<u>Amount</u>
2020	\$ 4,398,775
2021	4,399,775
2022	4,397,475
2023	4,401,875
2024	4,397,375
2025-2029	22,002,875
2030-2034	21,999,025
2035-2039	21,996,575
2040-2043	<u>21,998,400</u>
	<u>\$ 109,992,150</u>

DeMedici II has a debt obligation as described in Note 17; the School entered into a lease agreement with DeMedici and DeMedici II as a means to transfer funds sufficient to service this debt.

The School prepaid rent to DeMedici and DeMedici II and it is anticipated that approximately \$36,000 and \$49,000, respectively, will be recognized annually as rent expense. The remaining balance of prepaid rent as of June 30, 2019 to DeMedici II is \$1,176,003.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 7 RELATED-PARTY TRANSACTIONS (CONTINUED)

Facility Leasing Arrangements (Continued)

The following is a schedule of anticipated amortization of prepaid rent at June 30, 2019:

Year ending June 30:	<u>Amount</u>
2020	\$ 49,000
2021	49,000
2022	49,000
2023	49,000
2024	49,000
Thereafter	931,003
	<hr/> 1,176,003
Current Portion	49,000
Long-term Portion	<u><u>\$ 1,127,003</u></u>

Related-Party Receivables and Payables

The School advanced \$188,932 to DeMedici II as of June 30, 2019. The advances, which are noninterest-bearing, do not have stated repayment terms but are expected to be repaid within one year.

Management Fee

The School has an agreement with a nonprofit charter school management organization through 2022, which is automatically renewable on an annual basis. The management organization advises the School on educational and fiscal policies, as well as assisting with fundraising, and provides facilities management. The fee is based on a per student amount for the year. The base amounts due for fiscal year ended June 30, 2019 are \$1,180,438 for the Academic Service Fee and \$208,312 for the Facilities Management Fee.

NOTE 8 PENSION PLAN

Plan Description

The School contributes to a governmental cost-sharing, multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS), which provides retirement and disability benefits, legislative-mandated ad-hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The members eligible to participate in the PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any reporting entities in the Commonwealth of Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 PA.C.S. 8101-8535) (the "Code") assigns the authority to establish and amend benefit provisions to the PSERS. The PSERS issues an annual financial report that can be obtained at www.psers.pa.us.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 8 PENSION PLAN (CONTINUED)

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service. Benefits are generally equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined by the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

All members are fully vested in their individual balance in the Members' Savings Account. All non-vested members may receive a refund of their individual balance of member contributions and interest from the Members' Savings Account upon termination of public school employment. Vested members who enrolled prior to July 1, 2011 may elect to receive a return of their accumulated contributions and interest upon their retirement which results in a reduced monthly annuity. Vested Class T-E and T-F members cannot withdraw their accumulated contributions and interest from the Members' Savings Account upon their retirement.

Contributions

The contribution policy is established in the Code and requires contributions by active members, employers and the Commonwealth.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 8 PENSION PLAN (CONTINUED)

Contributions (Continued)

Member Contributions:

- Active members who joined the PSERS prior to July 22, 1983 contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the PSERS after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.
- Members who joined the PSERS after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The School's contractually required contribution rate for fiscal year ended June 30, 2019, was 32.60% of covered payroll (31.74% for 2018), actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School for the years ended June 30, 2019, 2018, 2017, 2016 and 2015, amounted to \$1,481,056, \$1,441,168, \$1,409,257, \$828,652, and \$1,185,384, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the School reported a liability of \$16,130,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2017 to June 30, 2018.

The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the School's proportion was 0.0336%, which was a decrease of 0.0024% from its proportion measured as of June 30, 2018.

For the fiscal year ended June 30, 2019, the School recognized pension expense of \$1,497,168. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 8 PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 130,000	\$ (250,000)
Changes in assumptions	301,000	-
Net difference between projected and actual investment earnings	79,000	-
Changes in proportions	176,000	(2,595,000)
Contributions subsequent to the measurement date	<u>1,481,056</u>	<u>-</u>
	<u>\$ 2,167,056</u>	<u>\$ (2,845,000)</u>

\$1,481,056 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	
2019	\$ (463,000)
2020	(795,000)
2021	(839,000)
2022	(62,000)
Thereafter	-
	<u>\$ (2,159,000)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2019 was determined by rolling forward PSERS' total pension liability as of the June 30, 2017 actuarial valuation to the measurement date of June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.25%, includes inflation at 2.75%
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and real wage growth and merit or seniority increases of 2.25%
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 8 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0%	5.2%
Fixed income	36.0%	2.2%
Commodities	8.0%	3.2%
Absolute return	10.0%	3.5%
Risk parity	10.0%	3.9%
infrastructure/MLPs	8.0%	5.2%
Real estate	10.0%	4.2%
Alternative investments	15.0%	6.7%
Cash	3.0%	0.4%
Financing (LIBOR)	(20.0%)	0.9%
	<u>100.00%</u>	

The above was PSERS' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

For the year ended June 30, 2018, the annual money-weighted rate of return on pension investments, net of pension plan investment expense, was 9.3%.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 8 PENSION PLAN (CONTINUED)

Sensitivity of the School's proportionate share of the net pension liability to change in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
The School's proportionate share of the net pension liability	\$ 19,994,000	\$ 16,130,000	\$ 12,862,000

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PSERS Comprehensive Annual Financial Report, which can be found on the PSERS's website at www.psers.pa.us.

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS

Health Insurance Premium Assistance Program

PSERS provides a Health Insurance Premium Assistance Program (Premium Assistance) for all eligible annuitants who qualify and elect to participate. The Program is a governmental cost sharing, multi-employer other postemployment benefit plan (OPEB). Under this program, employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS' fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of services and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Benefits Provided

Participating eligible retirees are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive Premium Assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2018 there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The Schools' contractually required contribution rate for fiscal year ended June 30, 2019 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the School were \$12,293 for the year ended June 30, 2019.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows or Resources Related to OPEB:

At June 30, 2019, the School reported a liability of \$701,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2017 to June 30, 2018. The School's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the School's proportion was 0.0336 percent, which was a decrease of 0.024 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the School recognized OPEB expense of \$1,912. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between projected and actual experience	\$ 4,000	\$ -
Changes in assumptions	11,000	(27,000)
Net difference between projected and actual investment earnings	1,000	-
Changes in proportions	-	(108,000)
Contributions subsequent to the measurement date	12,293	-
	<u>\$ 28,293</u>	<u>\$ (135,000)</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows or Resources Related to OPEB (Continued):

\$12,293 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ending June 30:</u>	
2019	\$ (23,000)
2020	(23,000)
2021	(23,000)
2022	(23,000)
2023	(23,000)
Thereafter	(4,000)
	<u>\$ (119,000)</u>

Actuarial Assumptions

The total OPEB liability as of June 30, 2019 was determined by rolling forward PSERS' total OPEB liability as of the June 30, 2017 actuarial valuation to June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 2.98% - S&P 20 Year Municipal Bond Rate.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
 - Eligible retirees will elect to participate pre age 65 at 50%.
 - Eligible retirees will elect to participate post age 65 at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows or Resources Related to OPEB (Continued):

- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Investments consist primarily of short term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the Program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

Asset Class	Target	Expected Real Rate of
Cash	5.9%	0.3%
US Core Fixed Income	92.8%	1.2%
Non-US Developed Fixed	1.3%	0.4%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

Discount rate

The discount rate used to measure the total OPEB liability was 2.98%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.98% which represents the S&P 20 year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure total OPEB liability.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2018, retirees' Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2017, 93,380 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2017, 1,077 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the School's net OPEB liability for June 30, 2018, calculated using current Healthcare cost trends as well as what PSERS' net OPEB liability would be if it's health cost trends were 1-percentage point lower or 1-percentage higher than the current rate:

	1% Decrease (Between 4% to 6.75%)	Current Trend Rate (Between 5% to 7.75%)	1% Increase (Between 6% to 8.75%)
The School's proportionate share of the net OPEB liability	\$ 700,654	\$ 701,000	\$ 700,404

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate.

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.98 percent) or higher (3.98 percent) than the current discount rate:

	1% Decrease 1.98%	Current Discount Rate 2.98%	1% Increase 3.98%
The School's proportionate share of the net OPEB liability	\$ 797,000	\$ 701,000	\$ 621,000

OPEB plan fiduciary net position.

Detailed information about PSERS' fiduciary net position is available in PSERS' Comprehensive Annual Financial Report which can be found on the System's website at www.psers.pa.gov.

NOTE 10 NET POSITION

A net position designation and commitment of fund balance is used to indicate that a portion of the total net position is not appropriable for expenditures because some underlying assets are not available financial resources or are legally segregated for specific future uses. As of June 30, 2019, the Board of Trustees has established net position designations in the amount of \$6,356,483 as shown in the statement of net position.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 11 GRANT CONTINGENCIES

Grants received are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

NOTE 12 LITIGATION

The School is, from time to time, involved in claims and lawsuits incidental to its operations. In the opinion of the administration and legal counsel, at this time, the ultimate resolution of these matters will not have an adverse effect on the financial position of the School.

NOTE 13 EMPLOYEE BENEFIT PLAN

The School maintains a savings incentive 403(b) plan for its employees. All employees are eligible. Participants may elect voluntary salary deferrals under the plan up to the maximum permitted by law. The School makes a contribution for certain employees enrolled in the plan at a rate of 5% of their eligible salaries. Contribution expense for the plan amounted to \$353,562 for the year ended June 30, 2019.

NOTE 14 COMPONENT UNIT – DEMEDICI CORPORATION

Cash and Cash Equivalents

DeMedici considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Building and Improvements, Net

Capital asset activity of DeMedici for the year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Building	\$ 2,084,537	\$ -	\$ -	\$ 2,084,537
Building improvements	372,033	-	-	372,033
Less: accumulated depreciation	(818,859)	(62,989)	-	(881,848)
Capital assets, net	<u>\$ 1,637,711</u>	<u>\$ (62,989)</u>	<u>\$ -</u>	<u>\$ 1,574,722</u>

Depreciation expense for the year ended June 30, 2019, was \$62,989.

Operating Leases

DeMedici recognizes scheduled increases in base rental income on a straight-line basis over the lease term. Additional rents are recognized as rental income when received.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 14 COMPONENT UNIT – DEMEDICI CORPORATION (CONTINUED)

Related-Party Transactions (Continued)

On June 1, 2013, DeMedici entered into a 30-year lease with the School for the rental of its buildings at 2600 South Broad Street, 2630 South Broad Street and 2636 South Broad Street, Philadelphia, PA. Base rentals are due in increasing amounts over the term of the lease. The School paid base rentals of \$499,038 and additional rent, as defined in the lease, of \$250,000 to DeMedici during the year ended June 30, 2019.

DeMedici is a co-borrower with DeMedici II related to \$55,500,000 of Series 2013 bonds for the purchase and improvement of a building used by the School. The total amount of the bond proceeds have been allocated to DeMedici II. The loan is payable in annual payments of principal and interest, which correspond to the repayment or redemption of the bonds that were issued on behalf of DeMedici by the Philadelphia Authority for Industrial Development. The bonds are collateralized by substantially all assets of DeMedici and DeMedici II and a security interest in the lease with the School. The bonds were issued with various maturities, interest rates and principal amounts as follows:

June 15, 2023, 6.00% and \$6,600,000; June 15, 2033, 6.50% and \$15,350,000; and June 15, 2043, 6.75% and \$33,550,000. The balance payable on the bonds was \$52,840,000 at June 30, 2019. DeMedici does not have the intention of having to make payments related to the amount allocated to DeMedici II.

Commitment

DeMedici leases a property from an unrelated party through December 31, 2023. Annual base rentals are \$214,440 during all periods, including the option period.

NOTE 15 COMPONENT UNIT – DEMEDICI II CORPORATION

Bond Issuance Costs

Costs relating to the issuance of bonds are amortized over the term of the bonds using the interest method.

Operating Leases

DeMedici II recognizes scheduled increases in base rental income on a straight-line basis over the lease term. Additional rents are recognized as rental income when received.

Cash, Restricted Cash and Cash Equivalents

DeMedici II considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 15 COMPONENT UNIT – DEMEDICI II CORPORATION (CONTINUED)

Land, Building and Improvements

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance <u>June 30, 2018</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2019</u>
Land	\$ 12,376,795	\$ -	\$ -	\$ 12,376,795
Buildings	21,963,547	-	-	21,963,547
Building improvements	15,857,378	-	-	15,857,378
Furniture and equipment	2,276,912	-	-	2,276,912
Construction in Progress	-	358,065	-	358,065
Less: accumulated depreciation	(6,149,693)	(1,291,776)	-	(7,441,469)
Capital assets, net	<u>\$ 46,324,939</u>	<u>\$ (933,711)</u>	<u>\$ -</u>	<u>\$ 45,391,228</u>

Depreciation expense for the year ended June 30, 2018, was \$1,291,776.

Long-Term Debt and Restricted Cash and Cash Equivalents

On June 28, 2013, DeMedici II and DeMedici, as co-borrowers, borrowed \$55,500,000 of Series 2013 bonds for purchase and improvement of a building to be used by the School. The total amount of the bond proceeds was allocated to DeMedici II. The loan is payable in annual payments of principal and interest, which correspond to the Philadelphia Authority for Industrial Development. The bonds are collateralized by substantially all assets of DeMedici II and DeMedici and a security interest in the lease with the School.

The bonds were issued with various maturities, interest rates and principal amounts as follows: June 15, 2023, 6.00% and \$6,600,000; June 15, 2033, 6.50% and \$15,350,000; and June 15, 2043, 6.75% and \$33,550,000. The bonds include an unamortized premium in the amount of \$268,317 at June 30, 2019. The balance payable on the bonds was \$52,840,000 at June 30, 2019.

As of June 30, 2019, principal and interest requirements of long-term debt based on the schedule of mandatory redemption are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 900,000	\$ 3,170,400	\$ 4,070,400
2021	955,000	3,116,400	4,071,400
2022	1,010,000	3,059,100	4,069,100
2023	1,075,000	2,998,500	4,073,500
2024-2028	6,475,000	15,104,375	21,579,375
2029-2033	8,875,000	12,706,525	21,581,525
2034-2038	12,215,000	9,781,088	21,996,088
2039-2043	<u>21,335,000</u>	<u>5,063,513</u>	<u>26,398,513</u>
	52,840,000	54,999,901	107,839,901
Unamortized Premium	<u>268,317</u>	<u>-</u>	<u>268,317</u>
	<u>\$ 53,108,317</u>	<u>\$ 54,999,901</u>	<u>\$ 108,108,218</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2019

NOTE 15 COMPONENT UNIT – DEMEDICI II CORPORATION (CONTINUED)

Long-Term Debt and Restricted Cash and Cash Equivalents (Continued)

Interest expense, which includes \$40,000 amortization of bond issuance costs and is net of amortization of premium on long-term debt of \$11,180, amounts to \$3,578,595.

DeMedici II also maintains several cash and cash equivalent accounts whereby the funds are restricted pursuant to the bond issuance agreement. Total restricted cash and cash equivalents as of June 30, 2019 was \$5,234,740, of which \$4,561,686 was being held for future payments of principal and interest.

Related-Party Transactions

DeMedici II has received advances of \$188,932 from the School and \$2,356,343 from DeMedici as of June 30, 2019. The advances, which are noninterest-bearing, do not have stated repayment terms and are expected to be repaid within one year.

NOTE 16 SUBSEQUENT EVENTS

The School have evaluated subsequent event through December 16, 2019, the date on which these financial statements were available to be issued. There were no material subsequent events that require recognition or additional disclosure in these financial statements.

The School was operated under a charter that was effective through June 30, 2019. School management and the Board is negotiating an extension of that approved charter.

Effective on July 1, 2019, PSERS and the School adopted Act 5 of 2017. Under this legislation, any employee who becomes a member of the Retirement System on or after July 1, 2019 will have the option of electing Class T-G membership, Class T-H membership or Class DC participation within 90 days of becoming a member. Current active members and former PSERS members returning to active service will also be eligible to elect Class T-G or Class T-H membership or Class DC participation. In addition, Act 5 of 2017 establishes a defined contribution plan for future new members effective July 1, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final Budget</u>
Revenues				
Local Educational Agencies	\$ 28,420,962	\$ 30,525,346	\$ 31,684,940	\$ 1,159,594
State Sources	489,888	489,888	477,635	(12,253)
Federal Sources	2,687,442	2,853,006	2,854,863	1,857
Other Sources	<u>574,621</u>	<u>495,621</u>	<u>360,393</u>	<u>(135,228)</u>
Total Revenues	<u>32,172,913</u>	<u>34,363,861</u>	<u>35,377,831</u>	<u>1,013,970</u>
Expenditures				
Instruction	17,421,332	17,774,292	17,534,052	240,240
Support Services	14,925,356	15,206,294	14,488,373	717,921
Non-Instructional Services	415,356	522,856	542,494	(19,638)
Debt Service	-	-	138,842	(138,842)
Capital Outlays	<u>-</u>	<u>-</u>	<u>965,091</u>	<u>(965,091)</u>
Total Expenditures	<u>32,762,044</u>	<u>33,503,442</u>	<u>33,668,852</u>	<u>(165,410)</u>
Net Change in Fund Balance	(589,131)	860,419	1,708,979	848,560
Fund Balance, Beginning of Year	<u>8,356,483</u>	<u>8,356,483</u>	<u>8,443,303</u>	<u>86,820</u>
Fund Balance, End of Year	<u>\$ 7,767,352</u>	<u>\$ 9,216,902</u>	<u>\$ 10,152,282</u>	<u>\$ 935,380</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY – LAST 10 YEARS*

	2019	2018	2017	2016	2015
School's Proportion of the net pension liability	0.0336%	0.0360%	0.0402%	0.0437%	0.0430%
School's proportionate share of the net pension liability	\$ 16,130,000	\$ 17,780,000	\$ 19,922,000	\$ 18,929,000	\$ 17,020,000
School's covered payroll	\$ 4,520,553	\$ 4,789,974	\$ 5,212,374	\$ 5,627,116	\$ 5,484,174
School's proportionate share of the net pension liability as a percentage of its covered payroll	356.81%	371.19%	382.21%	336.39%	310.35%
Plan fiduciary net position as a percentage of the total Pension liability	54.00%	51.84%	50.14%	54.36%	57.24%

*This schedule is intended to illustrate information for 10 years. However, until a ten year trend is compiled, the School is presenting information for those years in which information is available.

**PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
PENSION - SCHEDULE OF SCHOOL'S CONTRIBUTIONS
LAST 10 YEARS***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School's contractually required contribution	\$ 1,481,056	\$ 1,441,168	\$ 1,409,257	\$ 1,338,849	\$ 1,185,384
School's contributions in relation to the contractually required contribution	<u>(1,481,056)</u>	<u>(1,441,168)</u>	<u>(1,409,257)</u>	<u>(828,652)</u>	<u>(1,185,384)</u>
School's contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (510,197)</u>	<u>\$ -</u>
School's covered payroll	4,520,553	\$ 4,789,974	\$ 5,212,374	\$ 5,627,116	\$ 5,484,174
Contribution as a percentage of covered payroll	32.76%	30.09%	27.04%	23.79%	21.61%

Valuation Date:

The total pension liability as of June 30, 2019 was determined by rolling forward the System's total pension liability as of the June 30, 2017 actuarial valuation to the measurement date of June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Methods and assumptions used to determine contribution rates:

Actuarial cost method - Entry Age Normal level % of pay

Investment return - 7.25%, includes inflation at 2.75%

Salary increases - Effective average of 5.00%, which reflects an allowance for inflation of 2.75% and real wage growth and merit or seniority increases of 2.25%.

Mortality rates were based on the RP-2014 Mortality Tables (male and female) adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

* This schedule is intended to illustrate information for 10 years. However, until a 10-year trend is compiled, the School is presenting information for those years for which information is available.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
LAST 10 FISCAL YEARS*

	2019	2018
School's proportion of the net OPEB liability	0.0336%	0.0360%
School's proportionate share of the net OPEB liability	\$ 701,000	\$ 733,000
School's covered payroll	\$ 4,520,553	\$ 4,789,974
School's proportionate share of the net OPEB liability as as percentage of its covered payroll	15.51%	15.30%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	5.47%

*The School adopted GASB 75 on a prospective basis in fiscal year 2018;
therefore only two years are presented in the above schedule.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
OPEB – SCHEDULE OF SCHOOL'S CONTRIBUTIONS
LAST 10 FISCAL YEARS*

	2019	2018
Contractually required contribution	\$ 12,293	\$ 37,205
Contributions in relation to the contractually required contribution	12,293	37,205
Contribution deficiency (excess)	\$ -	\$ -
School's covered payroll	\$ 4,520,553	\$ 4,789,974
Contributions as a percentage of covered payroll	0.27%	0.78%

Notes to Schedule:

Valuation Date:

Actuarially determined contribution rates are calculated as of June 30, 2018, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

The results of the actuarial valuation as of June 30, 2018 determined the employer contribution rate for fiscal year 2019.

Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.

Asset valuation method: Market Value

Participation rate: 63% of eligible retirees are assumed to elect premium assistance.

Mortality rates and retirement ages were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using modified version of the MP-2015 Mortality Improvement Scale.

*The School adopted GASB 75 on a prospective basis in fiscal year 2018; therefore only two years are presented in the above schedule.

SINGLE AUDIT

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrual (Deferral) Beginning of Year	Amount Received	Amount Expended	Accrual (Deferral) End of Year	Subrecipient Awards
FEDERAL AWARDS							
<u>U.S. Department of Agriculture</u>							
Pass-through PA Department of Education							
National School Lunch Program	10.555	362	\$ 170,082	\$ 776,424	\$ 628,358	* \$ 22,016	\$ -
School Breakfast Program	10.553	365	26,378	110,300	87,202	* 3,280	-
Pass-through PA Department of Agriculture							
National School Lunch Program - Food Commodities	10.555	362	-	44,583	44,583	*	-
Total Child Nutrition Cluster			196,460	931,307	760,143	25,296	-
Total U.S. Department of Agriculture			196,460	931,307	760,143	25,296	-
<u>U.S. Department of Education</u>							
Pass-through PA Department of Education							
Title I Grants to Local Educational Agencies	84.010	013-180901	251,248	251,248	-	-	-
Title I Grants to Local Educational Agencies	84.010	013-190901	-	2,035,349	2,156,697	121,348	-
Total Title 1 Grants to Local Educational Agencies			251,248	2,286,597	2,156,697	121,348	-
Title IV - Student Support & Academic Enrichment	84.424	144-190901	-	122,750	153,438	30,688	-
Total Title IV Grants to LEAs			-	122,750	153,438	30,688	-
Title IIA - Grants to Local Agencies	84.367	020-180901	10,595	10,595	-	-	-
Title IIA - Grants to Local Agencies	84.367	020-190901	-	183,610	179,596	(4,014)	-
Total Title II Grants to LEAS			10,595	194,205	179,596	(4,014)	-
Pass-through the School District of Philadelphia							
Special Education - Grants to States	84.027	N/A	313,478	675,617	362,139	-	-
Total Special Education - Grants to States (IDEA)			313,478	675,617	362,139	-	-
Total U.S. Department of Education			575,321	3,279,169	2,851,870	148,022	-
<u>U.S. Department of Health and Human Services</u>							
Pass-through PA Department of Education							
Medical Assistance Program	93.778	044-007597	46,000	46,000	-	-	-
Total U.S Department of Health and Human Services			46,000	46,000	-	-	-
Total Federal Awards			\$ 817,781	\$ 4,256,476	\$ 3,612,013	\$ 173,318	\$ -

* Denotes Program Tested as Major

See accompanying notes to Schedule of Expenditures of Federal Awards.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

NOTE 1: GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of Philadelphia Performing Arts: A String Theory Charter School (the "School"). The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the School's financial statements.

NOTE 3: FEDERAL PROGRAM

The following represents the major federal programs:

<u>Name of Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	10.553 & 10.555

NOTE 4: INDIRECT COST RATE

The School has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Philadelphia Performing Arts: A String Theory Charter School (a nonprofit organization), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Philadelphia Performing Arts: A String Theory Charter School's basic financial statements, and have issued our report thereon dated December 16, 2019. The financial statements of DeMedici Corporation and DeMedici II Corporation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with DeMedici Corporation and DeMedici II Corporation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
December 16, 2019



Zelenkofske Axelrod LLC
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Compliance

We have audited Philadelphia Performing Arts: A String Theory Charter School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Philadelphia Performing Arts: A String Theory Charter School's major federal program for the year ended June 30, 2019. Philadelphia Performing Arts: A String Theory Charter School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Philadelphia Performing Arts: A String Theory Charter School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Philadelphia Performing Arts: A String Theory Charter School's compliance.

Opinion on the Major Federal Program

In our opinion, Philadelphia Performing Arts: A String Theory Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.



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Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Report on Internal Control Over Compliance

Management of Philadelphia Performing Arts: A String Theory Charter School, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Philadelphia Performing Arts: A String Theory Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
December 16, 2019

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? ____ yes X no
- Significant Deficiencies identified that are not considered to be material weaknesses?
____ yes X none reported

Noncompliance material to financial statements noted? ____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? ____ yes X no
- Significant Deficiencies identified that are not considered to be material weaknesses?
____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Uniform Guidance. ____ yes X no

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
#84.010	Title I Grants to Local Education Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes ____ no

Section II: Financial Statement Findings (GAGAS)

None Noted

Section II: Federal Award Findings and Questioned Costs (Major Program – Uniform Guidance)

None Noted

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2019

None for fiscal year ended June 30, 2018

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**PHILADELPHIA PERFORMING ARTS:
A STRING THEORY CHARTER SCHOOL**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
FOR THE YEAR ENDED JUNE 30, 2018

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PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
FOR THE YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Philadelphia Performing Arts: A String Theory Charter School (a nonprofit organization) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Philadelphia Performing Arts: A String Theory Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 financial statements are free from material misstatement. The financial statements of DeMedici Corporation and DeMedici II Corporation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania
Page 2

Opinions

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Philadelphia Performing Arts: A String Theory Charter School as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the School adopted the provisions of GASB Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."* See Note 15 regarding the related prior period adjustment. The School also adopted GASB Statement No. 81, *"Irrevocable Split-Interest Agreements,"* GASB Statement No. 85, *"Omnibus 2017,"* and GASB Statement No. 86, *"Certain Debt Extinguishment Issues."* The adoption of these statements had no effect on the reported amounts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 4-7 and 44-48, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Philadelphia Performing Arts: A String Theory Charter School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.



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Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania
Page 3

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting and compliance.

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
December 10, 2018

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

The Board of Trustees of Philadelphia Performing Arts: A String Theory Charter School (the School) offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented herein in conjunction with the School's financial statements.

Financial Highlights

- Total governmental fund revenues for the year ended June 30, 2018 were \$31,511,894 representing an increase of \$2,305,906 from June 30, 2017.
- At June 30, 2018, the School reported an ending governmental fund balance of \$8,443,303 representing an increase of \$1,086,820 from June 30, 2017.
- The School's cash and cash equivalents balance at June 30, 2018 was \$8,116,426, representing an increase of \$965,342 from June 30, 2017.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the School's financial statements. The School's financial statements as presented comprise four components: (1) management's discussion and analysis (this section), (2) the basic financial statements, (3) the required supplementary information, and (4) the federal awards section.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the School's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *statement of activities* presents information showing how the School's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. expenditures accrued in one year but paid in subsequent years).

The government-wide financial statements report on the function of the School that is principally supported by subsidies from school districts whose constituents attend the School. The School's function is to provide an alternative educational opportunity.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Overview of the Financial Statements (Continued)

Fund Financial Statements

A fund is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The School, like governmental type entities, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School has three fund types: the governmental general fund, the proprietary fund and the fiduciary agency fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Supplementary Information

The governmental fund budgetary comparison schedule and the pension and OPEB information comprise required supplementary information presented for purposes of additional analysis and are prepared using a basis consistent with accounting principles generally accepted in the United States of America ("GAAP") for state reporting requirements.

Single Audit Requirements

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Government-Wide Financial Analysis

Management has adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which requires an analysis of current and prior-year balances.

	<u>2018</u>	<u>2017</u>
Current Assets	\$ 10,655,368	\$ 9,885,189
Noncurrent Assets	<u>4,097,579</u>	<u>3,893,581</u>
Total Assets	<u>14,752,947</u>	<u>13,778,770</u>
Deferred Outflows of Resources	<u>3,574,373</u>	<u>5,106,330</u>
Current Liabilities	3,643,480	4,214,165
Noncurrent Liabilities	<u>18,513,000</u>	<u>20,058,179</u>
Total Liabilities	<u>22,156,480</u>	<u>24,272,344</u>
Deferred Inflows of Resources	<u>2,660,000</u>	<u>1,386,000</u>
Net Position		
Net Investment in Capital Assets	2,785,398	2,347,804
Unrestricted	<u>(9,274,558)</u>	<u>(9,121,048)</u>
Total Net Position (Deficit)	<u>\$ (6,489,160)</u>	<u>\$ (6,773,244)</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Overview of the Financial Statements (Continued)

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded assets and deferred outflows by \$6,489,160 as of June 30, 2018.

Government-Wide Financial Analysis

The School's revenues are predominately received from the School District of Philadelphia, based on student enrollment. For the year ended June 30, 2018, the School's revenues of \$32,704,713 exceeded its expenditures of \$31,554,629 by \$1,150,084.

	<u>2018</u>	<u>2017</u>
Revenues		
Local Educational Agencies	\$ 27,876,206	\$ 25,923,893
Other Local Sources	356,565	341,890
State Sources	482,549	515,994
Federal Sources	2,796,574	2,424,211
Food Services	1,192,819	1,047,874
Total Revenues	<u>32,704,713</u>	<u>30,253,862</u>
Expenses		
Instructional Programs	16,261,164	15,282,927
Pupil Personnel Services	835,237	797,362
Instructional Staff Services	629,897	707,172
Administrative Services	4,008,287	3,840,291
Pupil Health Services	232,152	227,463
Buisness Services	576,003	556,903
Operation and Maintenance of Plant Services	7,043,102	6,996,715
Other Support Services	474,210	472,362
Student Activities	419,720	426,233
Food Services	1,069,581	965,028
Interest Expense	5,276	10,926
Total Expenses	<u>31,554,629</u>	<u>30,283,382</u>
Change in Net Position	1,150,084	(29,520)
Net Position (Deficit) - Beginning	(6,773,244)	(6,743,724)
Restatement of Net Position for GASB 75	(866,000)	-
Net Position (Deficit) - Beginning, As Restated	<u>(7,639,244)</u>	<u>(6,743,724)</u>
Net Position (Deficit) - Ending	<u>\$ (6,489,160)</u>	<u>\$ (6,773,244)</u>

Governmental Funds

The focus of the School's *governmental fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, the fund balance may serve as a useful measure of a School's net resources available for spending for program purposes at the end of the year.

The general fund is the chief operating fund of the School. At the end of the current year, the unassigned fund balance of the general fund was \$413,912 while the total general fund balance was \$8,443,304.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Overview of the Financial Statements (Continued)

General Fund Budgetary Highlights

There were no annual operating budget amendments made during the year that were required to be submitted to the Commonwealth of Pennsylvania.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2018, the School's net investment in capital assets for its total governmental activities and business-type activity totaled \$2,785,398 (net of accumulated depreciation and related debt). This net investment in capital assets includes classroom and office furniture, computers, classroom materials, student transportation vehicles and leasehold improvements.

Long-Term Debt

At June 30, 2018, the School's governmental activities and business-type activity had outstanding capital lease obligations of \$136,178.

Economic Factors and Next Year's Budgets and Rates

The School does not foresee any substantial variations with next year's economic factors, budgets or rates.

Future Events that will Financially Impact the School

The School does not foresee any future events at this time that will financially impact the School.

Contacting the School's Financial Management

The financial report is designed to provide interested parties a general overview of the School's finances. Questions regarding any of the information provided in this report should be addressed to: Santilli & Thomson, LLC, 601 Route 73 North, Suite 302 Marlton, NJ 08053.

Component Units

DeMedici Corporation ("DeMedici") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that DeMedici is legally separate from the School. Complete financial statements of DeMedici can be obtained at 2600 South Broad Street, Philadelphia, Pennsylvania 19145.

DeMedici II Corporation ("DeMedici II") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that DeMedici II is legally separate from the School. Complete financial statements of DeMedici II can be obtained at 1600 Vine Street, Philadelphia, Pennsylvania 19102.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business- Type Activities	Totals	Component Unit - DeMedici	Component Unit - DeMedici II
<u>Assets</u>					
Cash and Cash Equivalents	\$ 8,052,513	\$ 63,913	\$ 8,116,426	\$ 483,371	\$ 51,416
Restricted Cash and Cash Equivalents	-	-	-	-	5,330,079
State Subsidies Receivable	388,718	9,828	398,546	-	-
Federal Subsidies Receivable	261,843	196,460	458,303	-	-
Local Subsidies Receivable	313,478	-	313,478	-	-
Other Receivables	241,618	-	241,618	-	-
Internal Balances	448,931	(448,931)	-	-	-
Due From Related Parties	523,364	-	523,364	1,860,107	-
Prepaid Expenses - Current Portion	496,905	106,728	603,633	12,751	150
Prepaid Expenses, Net of Current Portion	1,176,003	-	1,176,003	-	-
Capital Assets:					
Land	-	-	-	-	12,376,795
Buildings and Improvements	-	-	-	2,456,570	37,820,926
Leasehold Improvements	2,392,189	-	2,392,189	-	-
Furniture and Equipment	602,044	405,712	1,007,756	-	1,026,255
Transportation Equipment	67,338	-	67,338	-	-
Computers and Software	2,384,155	-	2,384,155	-	1,250,657
Less: Accumulated Depreciation	(2,664,759)	(265,103)	(2,929,862)	(818,859)	(6,149,693)
Bond Issuance Costs	-	-	-	-	999,397
Deferred Rent	-	-	-	-	1,181,518
Total Assets	<u>14,684,340</u>	<u>68,607</u>	<u>14,752,947</u>	<u>3,993,940</u>	<u>53,887,500</u>
<u>Deferred Outflows of Resources</u>					
Related to OPEB	38,205	-	38,205	-	-
Related To Pensions	<u>3,536,168</u>	<u>-</u>	<u>3,536,168</u>	<u>-</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>3,574,373</u>	<u>-</u>	<u>3,574,373</u>	<u>-</u>	<u>-</u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2018

	Governmental Activities	Business- Type Activities	Totals	Component Unit - DeMedici	Component Unit - DeMedici II
<u>Liabilities</u>					
Accounts Payable and Accrued Expenses	1,694,323	47,232	1,741,555	550	2,925
Accrued Salary and Benefits	1,743,192	-	1,743,192	-	-
Due To Affiliates	-	-	-	-	-
Due To Related Parties	22,555	-	22,555	-	2,373,027
Long-term Obligations:					
Due Within One Year:					
Deferred Rent	-	-	-	34,696	-
Capital Lease Obligations	136,178	-	136,178	-	-
Long-term Debt	-	-	-	-	850,000
Due Beyond One Year:					
Long-term Debt, Net of Unamortized Premium of \$290,677	-	-	-	-	53,119,497
OPEB Liability	733,000	-	733,000	-	-
Pension Liability	17,780,000	-	17,780,000	-	-
Total Liabilities	22,109,248	47,232	22,156,480	35,246	56,345,449
<u>Deferred Inflows of Resources</u>					
Related to OPEB	112,000	-	112,000	-	-
Related to Pensions	2,548,000	-	2,548,000	-	-
Total Deferred Inflows of Resources	2,660,000	-	2,660,000	-	-
<u>Net Position</u>					
Net Investment In Capital Assets	2,644,789	140,609	2,785,398	-	-
Unrestricted:					
Designated by the Board for Capital Improvements	3,000,000	-	3,000,000	-	-
Designated by the Board for Capital Technology Improvements	1,500,000	-	1,500,000	-	-
Designated by the Board for Future Debt Service Bonds	1,856,483	-	1,856,483	-	-
Undesignated	(15,511,807)	(119,234)	(15,631,041)	3,958,694	(2,457,949)
Total Unrestricted	(9,155,324)	(119,234)	(9,274,558)	3,958,694	(2,457,949)
Total Net Position (Deficit)	\$ (6,510,535)	\$ 21,375	\$ (6,489,160)	\$ 3,958,694	\$ (2,457,949)

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
JUNE 30, 2018

Functions	Expenses	Charges for Service	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position				
				Governmental Activities	Business-Type Activities	Total	Component Unit DeMedici	Component Unit DeMedici II
Governmental activities:								
Instruction:								
Regular Instruction Programs	\$ 12,630,147	\$ -	\$ 2,878,422	\$ (9,751,725)	\$ -	\$ (9,751,725)	\$ -	\$ -
Special Instruction Programs	3,622,805	-	-	(3,622,805)	-	(3,622,805)	-	-
Other Instructional Programs	8,212	-	-	(8,212)	-	(8,212)	-	-
Support Services:								
Pupil Personnel	835,237	-	-	(835,237)	-	(835,237)	-	-
Instructional Staff	629,897	-	-	(629,897)	-	(629,897)	-	-
Administration	4,008,287	-	-	(4,008,287)	-	(4,008,287)	-	-
Pupil Health	232,152	-	31,935	(200,217)	-	(200,217)	-	-
Business	576,003	-	-	(576,003)	-	(576,003)	-	-
Operation and Maintenance of Plant Services	7,043,102	-	368,766	(6,674,336)	-	(6,674,336)	-	-
Central	474,210	-	-	(474,210)	-	(474,210)	-	-
Operation of Non-Instructional Services:								
Student Activities	157,787	-	-	(157,787)	-	(157,787)	-	-
Community Service	261,933	-	-	(261,933)	-	(261,933)	-	-
Debt Service	5,276	-	-	(5,276)	-	(5,276)	-	-
Total Governmental Activities	30,485,048	-	3,279,123	(27,205,925)	-	(27,205,924)	-	-
Business-Type Activities								
Food Service	1,069,581	433,067	759,752	-	123,238	123,238	-	-
Total Primary Government Activities	\$ 31,554,629	\$ 433,067	\$ 4,038,875	(27,205,925)	123,238	(27,082,687)	-	-
Component Units								
DeMedici Corporation	-	-	-	-	-	-	(271,157)	-
DeMedici II Corporation	-	-	-	-	-	-	-	(5,163,592)
General Revenues								
Local Educational Agencies				27,876,206	-	27,876,206	-	-
Rental Income				-	-	-	749,038	4,346,086
Other Revenue				356,565	-	356,565	1,093	49,808
Total General Revenue				28,232,771	-	28,232,771	750,131	4,395,894
Change in Net Position				1,026,846	123,238	1,150,084	478,974	(767,698)
Net Position (Deficit) - Beginning of Year				(6,671,381)	(101,863)	(6,773,244)	3,479,720	(1,690,251)
Restatement of Net Position for GASB 75				(866,000)	-	(866,000)	-	-
Net Position (Deficit) - Beginning of Year, as Restated				(7,537,381)	(101,863)	(7,639,244)	3,479,720	(1,690,251)
Net Position (Deficit) - End of Year				\$ (6,510,535)	\$ 21,375	\$ (6,489,160)	\$ 3,958,694	\$ (2,457,949)

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2018

	<u>General Fund</u>
<u>Assets</u>	
Assets	
Cash	\$ 8,052,513
State Subsidies Receivable	388,718
Federal Subsidies Receivable	261,843
Local Subsidies Receivable	313,478
Other Receivables	241,618
Due from Related Parties	523,364
Due from Other Funds	448,931
Prepaid Expenses	<u>1,672,908</u>
Total Assets	<u>\$ 11,903,373</u>
<u>Liabilities and Fund Balance</u>	
Liabilities	
Accounts Payable and Accrued Expenses	\$ 1,694,323
Accrued Salary and Benefits	1,743,192
Due to Related Party	<u>22,555</u>
Total Liabilities	<u>3,460,070</u>
Fund Balance	
Nonspendable	1,672,908
Committed - Capital Improvements	3,000,000
Committed - Capital Technology Improvements	1,500,000
Committed - Future Debt Service Bonds	1,856,483
Unassigned	<u>413,912</u>
Total Fund Balance	<u>8,443,303</u>
Total Liabilities and Fund Balance	<u>\$ 11,903,373</u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balance for Governmental Fund	\$	8,443,303
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Total Net Position Reported for Governmental Activities in the Statement of Net Position is Different because:

Capital Assets used in governmental funds are not financial resources and therefore, are not reported in the fund. Those assets consist of:

Leasehold Improvements	2,392,189	
Furniture and Equipment	602,044	
Transportation Equipment	633,031	
Software	1,818,462	
Less: Accumulated Depreciation	<u>(2,664,759)</u>	
		2,780,967

Long-term liabilities that pertain to the governmental fund, including notes payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Those liabilities consist of:

Capital lease obligations	(136,178)	
Net OPEB liability, net of contractual liability	(733,000)	
Net pension liability, net of contractual liability	<u>(17,780,000)</u>	
		(18,649,178)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the government fund. Balances at year end are:

Deferred outflows of resources related to OPEB	38,205	
Deferred outflows of resources related to pensions	3,536,168	
Deferred inflows of resources related to OPEB	(112,000)	
Deferred inflows of resources related to pensions	<u>(2,548,000)</u>	
		<u>914,373</u>

Total Net Position (Deficit) of Governmental Activities	\$	<u><u>(6,510,535)</u></u>
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The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>
Revenues	
Local Educational Agency Assistance	\$ 27,876,206
Other local sources	356,565
State sources	482,549
Federal sources	<u>2,796,574</u>
Total Revenues	<u>31,511,894</u>
Expenditures	
Instruction	15,415,796
Support Services	13,549,716
Non-Instructional Services	406,263
Debt Service	138,843
Capital Outlays	<u>914,456</u>
Total Expenditures	<u>30,425,074</u>
Net Change in Fund Balance	1,086,820
Fund Balance - Beginning of Year	<u>7,356,483</u>
Fund Balance - End of Year	<u>\$ 8,443,303</u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2018

Net Change in Fund Balance - Total Governmental Fund \$ 1,086,820

Amounts Reported for Governmental Activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities, assets are capitalized and the cost is allocated over
their estimated useful lives and reported as depreciation expense, as follows:

Capital Outlays	914,456	
Depreciation Expense	<u>(577,040)</u>	
		337,416

The governmental fund reports repayments of note principal and capital lease
obligations as expenditures. In the statement of net position, however, issuing
debt repayment of principal reduces the liability. The net effect of these
differences in the treatment of notes payable and capital lease obligations, is as follows:

Repayments of notes and capital lease obligations	<u>133,567</u>	
		133,567

The governmental fund reports pension contributions as expenditures. However,
in the statement of activities, the cost incurred for future pension benefits is
reported as pension expense:

Cost of benefits earned net of employee contributions	<u>(530,957)</u>	
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Change in Net Position of Governmental Activities \$ 1,026,846

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2018

	<u>Enterprise Fund</u> Food Service Fund
<u>Assets</u>	
Assets	
Current Assets:	
Cash	\$ 63,913
State Subsidies Receivable	9,828
Federal Subsidies Receivable	196,460
Prepaid Expenses	<u>106,728</u>
Total Current Assets	<u>376,929</u>
Capital Assets:	
Furniture and Equipment	405,712
Less: Accumulated Depreciation	<u>(265,103)</u>
Total Capital Assets, Net	<u>140,609</u>
Total Assets	<u><u>\$ 517,538</u></u>
<u>Liabilities</u>	
Liabilities	
Current Liabilities:	
Accounts Payable	\$ 47,232
Due to General Fund	<u>448,931</u>
Total Current Liabilities	496,163
<u>Net Position</u>	
Net Position - Unrestricted	<u>21,375</u>
Total Liabilities and Net Position	<u><u>\$ 517,538</u></u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2018

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
Operating Revenues	
Food Service Revenues	\$ 433,067
Operating Expenses	
Management Service Costs	894,905
Administrative	74,513
Salaries and Related Benefits	50,440
Depreciation	<u>49,723</u>
Total Operating Expenses	<u>1,069,581</u>
Operating Loss	<u>(636,514)</u>
Nonoperating Revenues:	
Federal Sources	727,244
State Sources	<u>32,508</u>
Total Nonoperating Revenues	<u>759,752</u>
Change In Net Position	123,238
Net Position (Deficit) - Beginning of Year	<u>(101,863)</u>
Net Position - End of Year	<u>\$ 21,375</u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2018

	<u>Enterprise Fund</u>
	<u>Food Service</u>
	<u>Fund</u>
Cash Flows From Operating Activities	
Cash Received From (Paid To)	
Food Services	\$ 433,067
Payments to Suppliers	(911,293)
Payments to Employees	<u>(50,440)</u>
Net Cash Used in Operating Activities	<u>(528,666)</u>
Cash Flows From Non-Capital Financing Activities	
Federal Sources	572,287
State Sources	27,857
Payment on Long-term Debt	(16,348)
Internal Balances	<u>(38,546)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>545,250</u>
Net Decrease in Cash	16,584
Cash, Beginning of Year	<u>47,329</u>
Cash, End of Year	<u><u>\$ 63,913</u></u>
Reconciliation of Operating Income to Net Cash Used in	
Operating Activities	
Operating Loss	\$ (636,514)
Adjustments to Reconcile Operating Income to Net Cash	
Used in Operating Activities	
Depreciation Expense	49,724
Commodities Expense	61,309
Change in Assets and Liabilities	
Receivables	-
Accounts Payable	(3,201)
Prepays	<u>16</u>
Net Cash Used in Operating Activities	<u><u>\$ (528,666)</u></u>

Noncash Transactions:

The School received commodities during fiscal year 2018 totaling \$61,309

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND
JUNE 30, 2018

	Total Agency Fund
<u>Assets</u>	
Cash	<u>\$ 400,184</u>
<u>Liabilities</u>	
Due to Student Groups	<u>400,184</u>
Total Liabilities	<u>400,184</u>
<u>Net Position</u>	
Unrestricted	<u><u>\$ -</u></u>

The accompanying notes are an integral part of the financial statements

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Philadelphia Performing Arts: A String Theory Charter School (the School) is organized as a nonprofit corporation in Pennsylvania to operate a charter school in accordance with Pennsylvania Act 22 of 1997 (the "Act") and is operating under a charter school contract ending on June 30, 2019. The School is located in Philadelphia, Pennsylvania. During the 2017-2018 school year, the School served students in grades K through 12.

The School has financial accountability and control over all activities related to the students' education. The School receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. The reporting entity of the School is based upon criteria set forth by Governmental Accounting Standards Board ("GASB") Statement No. 14, *"The Financial Reporting Entity"* as amended by GASB Statement No. 61, *"The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and No. 34"* and GASB Statement No. 80, *"Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14"*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and 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 accompanying financial statements present the activities of the School. The School is not a component unit of another reporting entity. The decision to include a potential component unit in the School's reporting entity is based on several criteria, including legal standing, dependency, and financial accountability. As described below, the School has identified two component units.

Component Units

DeMedici Corporation ("DeMedici") and DeMedici II Corporation ("DeMedici II") are legally separate, tax-exempt component units of the School. DeMedici and DeMedici II were organized to acquire and construct the School's facilities. Although the School does not control the timing or amounts of receipts from DeMedici and DeMedici II, the majority of resources and income thereon that DeMedici and DeMedici II hold are restricted to the activities of the School. Because these restricted resources held by DeMedici and DeMedici II can only be used by or for the benefit of the School, DeMedici and DeMedici II are considered component units of the School and are discretely presented in the School's financial statements.

Basis of Presentation

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the School's accounting policies are described below.

The School adopted statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*, which identifies the hierarchy of generally accepted accounting principles in the context of the current governmental financial reporting environment.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

DeMedici and DeMedici II are accounted for under GAAP as applied to not-for-profit entities and use the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report on the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of the School's function are offset by program revenues. These statements include the financial activities of the primary government; fiduciary funds are excluded.

The fund financial statements (governmental fund balance sheet and statement of governmental fund revenues, expenditures and changes in fund balance) report on the School's general fund.

C) Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements:

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The School reports the following major governmental fund:

General Fund – The general fund is the operating fund of the School and accounts for all operating revenues and expenditures of the School.

The School reports the following proprietary fund:

Food Service Fund – An enterprise fund is required to be used to account for operations for which a fee is charged to external users for goods and services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third-party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Fund financial statements (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the School's enterprise fund are charges to students for sales of food. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The School reports the following fiduciary agency fund:

Student Activities Fund – The agency fund is used to account for assets held by the School for student groups and is managed by the students. The agency fund is purely custodial in nature and does not involve a measurement of operations.

Net Position

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, classifies net position into three components – net investment in capital assets; restricted; and unrestricted.

These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.
- Restricted – This component of net position consists of constraints placed on the use of net assets through external constraints imposed by creditors such as through debt covenants, grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Balance Classification Policies and Procedures

The School follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the classification of the School's fund balance into five components: nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as follows:

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Fund Balance Classification Policies and Procedures (Continued)

- Nonspendable – This category is for amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to remain intact. The School's nonspendable fund balance comprises prepaid expenses.
- Restricted – This category is the part of the fund balance that is restricted to be spent for a specific purpose. The constraints on these amounts must be externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or by enabling legislation.
- Committed – This category is the portion of the fund balance that can only be used for specific purposes as a result of formal action by the School's highest level of authority.
- Assigned – This category reflects funds that the School intends to use for a specific purpose but is not considered restricted or committed.
- Unassigned – This category represents the part of the spendable fund balance that has not been categorized as nonspendable, restricted, committed, or assigned.

Budgets and Budgetary Accounting

The School adopts an annual budget on a basis consistent with GAAP for the general fund. The School is required to present the adopted and final budgeted revenues and expenditures for the general fund that were filed and accepted by the Labor, Education and Community Services Comptroller's Office

Use of Estimates

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

Cash and Cash Equivalents

The School's cash consists of cash on hand and demand deposits. For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Prepaid Expenses and Prepaid Rent

Prepaid expenses at June 30, 2018 include amounts for payments to vendors for services applicable to future accounting periods such as rental payments, insurance premiums and retainage for professional services.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

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

Receivables

Receivables primarily consist of amounts due from federal, state and local authorities. Receivables are stated at the amount management expects to collect. As of June 30, 2018, based on historical experience, no allowance for doubtful accounts has been established.

Capital Assets

The School's capital assets, which include leasehold improvements and furniture and equipment, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a threshold level of \$2,500 for capitalizing assets. The School does not possess any infrastructure.

The infrastructure is owned by DeMedici and DeMedici II, which are shown discretely. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the assets, which range from five to thirty-nine years.

Deferred Outflows / Inflows of Resources

Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of net position and related disclosures. In compliance with Statement No. 63, the statement of net position includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Advertising Costs

All costs associated with advertising and promotions are expensed in the year incurred.

Income Tax Status

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Uncertain Tax Positions

The School accounts for uncertainty in income taxes in which tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of June 30, 2018, the School had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. Additionally, the School had no interest or penalties related to income taxes.

The School files an income tax return in the U.S. federal jurisdiction. With few exceptions, the School is no longer subject to U.S. federal tax examinations by taxing authorities for years before June 30, 2014.

Pension Plan and OPEB Plan

For purposes of measuring net pension liability and net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Public School Employee's Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms investments are reported at fair value.

Adoption of Government Accounting Standards Board Statements

The School adopted the provisions of GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*." See Note 17 regarding the related prior period adjustment.

The School adopted the provisions of GASB Statement No. 81, "*Irrevocable Split-Interest Agreements*." The adoption of this Statement had no effect on the reported amounts.

The School adopted the provisions of GASB Statement No. 85, "*Omnibus 2017*." The adoption of this Statement had no effect on the reported amounts.

The School adopted the provisions of GASB Statement No. 86, "*Certain Debt Extinguishment Issues*." The adoption of this Statement had no effect on the reported amounts.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Pending Changes in Accounting Principles

In November 2016 the GASB issued Statement No. 83, "*Certain Asset Requirement Obligations*." The School is required to adopt Statement No. 83 for its fiscal year 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, "*Fiduciary Activities*." The School is required to adopt Statement No. 84 for its fiscal year 2020 financial statements.

In June 2017, the GASB issued Statement No. 87, "*Leases*." The School is required to adopt Statement No. 87 for its fiscal year 2021 financial statements.

In April 2018, the GASB issued Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*." The School is required to adopt Statement No. 88 for its fiscal year 2020 financial statements.

In June 2018, the GASB issued Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*." The School is required to adopt Statement No. 89 for its fiscal year 2021 financial statements.

In August 2018, the GASB issued Statement No. 90, "*Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61*." The School is required to adopt Statement No. 90 for its fiscal year 2020 financial statements.

The School has not yet completed the various analyses required to estimate the financial statement impact of these new pronouncements.

Subsequent Events

The School has evaluated subsequent events through December 10, 2018, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 2 CASH, RESTRICTED CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, the School's, DeMedici's and DeMedici II's deposits may not be returned to the School, DeMedici and DeMedici II. The School, DeMedici and DeMedici II monitor custodial credit risk by periodically reviewing the Federal Deposit Insurance Corporation's ("FDIC") limits and published credit ratings of its depository banks. Accounts are insured by the FDIC up to \$250,000 for all accounts kept at one financial institution. Under Pennsylvania Act 72, financial institutions pledge collateral on a pooled basis to secure public deposits in excess of FDIC insurance limits. The School's accounts are covered under this act.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 2 CASH, RESTRICTED CASH AND CASH EQUIVALENTS (CONTINUED)

As of June 30, 2018, the custodial risk is as follows:

	Governmental Activities	Business-Type Activity	Component Unit - DeMedici	Component Unit - DeMedici II
Total bank balance exposed to credit risk	\$ 8,181,240	\$ 63,913	\$ 234,799	\$ 5,381,495
Amount insured by FDIC	<u>500,000</u>	<u>63,913</u>	<u>234,799</u>	<u>301,416</u>
Amount collateralized under Act 72	<u>\$ 7,681,240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,080,079</u>

NOTE 3 RECEIVABLES

Receivables at June 30, 2018 primarily consist of amounts due from federal, state, and local authorities. All receivables are considered collectible due to the stable condition of the state and private programs.

A summary of receivables is as follows:

<u>Receivables</u>	Governmental <u>Activities</u>	Business-Type <u>Activity</u>
Federal	\$ 261,843	\$ 196,460
State	388,718	9,828
Local	<u>313,478</u>	<u>-</u>
	<u>\$ 964,039</u>	<u>\$ 206,288</u>

NOTE 4 LOCAL EDUCATIONAL AGENCY ASSISTANCE (REVENUE)

The School receives funding from the School District of Philadelphia (the "School District") on a monthly basis based on enrollment. The rate of funding per student is determined on an annual basis.

For each non-special education student enrolled, charter schools receive no less than the budgeted total expenditure per average daily membership of the prior school as defined by the Act. For the year ended June 30, 2018, the rate for most of the students was \$8,523 per year per student, plus additional funding for special education students and transportation. The annual rate is paid monthly and is prorated if a student enters or leaves during the year. Total revenue from student enrollment was \$27,876,206 for the year ended June 30, 2018.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 5 CAPITAL ASSETS, NET

Capital asset activity for the year ended June 30, 2018, was as follows:

<u>Governmental Activities</u>	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Leasehold Improvements	\$ 2,164,976	\$ 227,213	\$ -	\$ 2,392,189
Furniture and Equipment	480,494	121,550	-	602,044
Transportation Equipment	67,338	-	-	67,338
Computers and Software	1,818,462	565,693	-	2,384,155
Less: Accumulated Depreciation	<u>(2,087,719)</u>	<u>(577,040)</u>	<u>-</u>	<u>(2,664,759)</u>
Capital Assets, Net	<u>\$ 2,443,551</u>	<u>\$ 337,416</u>	<u>\$ -</u>	<u>\$ 2,780,967</u>

Depreciation expense for the year ended June 30, 2018, was \$577,040.

<u>Business-Type Activities</u>	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Furniture and Equipment	\$ 405,712	\$ -	\$ -	\$ 405,712
Less: Accumulated Depreciation	<u>(215,379)</u>	<u>(49,724)</u>	<u>-</u>	<u>(265,103)</u>
Capital assets, net	<u>\$ 190,333</u>	<u>\$ (49,724)</u>	<u>\$ -</u>	<u>\$ 140,609</u>

Depreciation expense for the year ended June 30, 2018, was \$49,724.

NOTE 6 OBLIGATIONS UNDER LEASES

Capital Lease

In September 2016, the School entered into a three-year agreement with Apple Financial to lease computers at a cost of \$400,749. The agreement has an annual interest rate of 2.08% and is payable in annual installments of \$138,790. Future minimum lease payments required under the capital lease as of June 30, 2018, are as follows:

Year ending June 30:

	<u>2019</u>
Total minimum lease payments	\$ 138,790
Less: amount representing interest	<u>(2,612)</u>
Present value of minimum lease payments	136,178
Less: current portion of capital lease obligations	<u>(136,178)</u>
Long-term portion of capital lease obligations	<u>\$ -</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 6 OBLIGATIONS UNDER LEASES (CONTINUED)

Changes in capital lease obligations were as follows for the year ended June 30, 2018:

Balance, July 1, 2017	\$ 269,745
Additions	-
Repayments of principal	<u>(133,567)</u>
Balance, June 30, 2018	<u>\$ 136,178</u>

Interest expense on the capital leases was \$5,276 for the year ended June 30, 2018.

NOTE 7 RELATED-PARTY TRANSACTIONS

Facility Leasing Arrangements

On June 1, 2013, the School entered into a 30-year non-cancelable lease with DeMedici for the rental of its buildings at 2600 South Broad Street, 2630 South Broad Street and 2636 South Broad Street, Philadelphia, PA. Base rentals are due in increasing amounts over the term of the lease. The School paid base rentals of \$494,862 and additional rent, as defined in the lease, of \$250,000 to DeMedici during the year ended June 30, 2018.

On June 1, 2013, the School entered into a 30-year non-cancelable operating lease for the rental of its facilities with DeMedici II. The lease will expire on June 15, 2043. Rent expense under the lease, which includes base rent recognized ratably over the term of the lease and additional rent, as defined in the lease agreement, was \$4,420,262 for the year ended June 30, 2018. All of the School's assets are pledged as collateral with the leases.

The following is a schedule of future minimum lease payments under the operating leases at June 30, 2018:

<u>Year ending June 30:</u>	<u>Amount</u>
2019	\$ 4,399,775
2020	4,398,775
2021	4,399,775
2022	4,397,475
2023	4,401,875
2024-2028	21,998,750
2029-2033	22,000,900
2034-2038	21,996,087
2039-2043	<u>26,398,513</u>
	<u>\$ 114,391,925</u>

DeMedici II has a debt obligation as described in Note 17; the School entered into a lease agreement with DeMedici and DeMedici II as a means to transfer funds sufficient to service this debt.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 7 RELATED-PARTY TRANSACTIONS (CONTINUED)

Facility Leasing Arrangements (Continued)

The School prepaid rent to DeMedici and DeMedici II and it is anticipated that approximately \$36,000 and \$49,000, respectively, will be recognized annually as rent expense. The remaining balance of prepaid rent as of June 30, 2018 to DeMedici and DeMedici II is \$34,696 and \$1,225,003, respectively.

The following is a schedule of anticipated amortization of prepaid rent at June 30, 2018:

Year ending June 30:	<u>Amount</u>
2019	\$ 83,696
2020	49,000
2021	49,000
2022	49,000
2023	49,000
Thereafter	<u>980,003</u>
	1,259,699
Current Portion	<u>83,696</u>
Long-term Portion	<u>\$ 1,176,003</u>

Related-Party Receivables and Payables

The School advanced \$3,852 to DeMedici II as of June 30, 2018. The advances, which are noninterest-bearing, do not have stated repayment terms but are expected to be repaid within one year.

Management Fee

The School has an agreement with a nonprofit charter school management organization through 2018, which is automatically renewable on an annual basis. The management organization advises the School on educational and fiscal policies, as well as assisting with fundraising, and provides facilities management. The fee is based on a per student amount for the year. The base amounts due for fiscal year ending June 30, 2019 are \$1,180,438 for the Academic Service Fee and \$208,312 for the Facilities Management Fee.

NOTE 8 PENSION PLAN

Plan Description

The School contributes to a governmental cost-sharing, multiple-employer defined benefit pension plan administered by the Pennsylvania Public School Employees' Retirement System ("PSERS"), which provides retirement and disability benefits, legislative-mandated ad-hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The members eligible to participate in the PSERS include all full-time public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any reporting entities in the Commonwealth of Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 PA.C.S. 8101-8535) (the "Code") assigns the authority to establish and amend benefit provisions to the PSERS. The PSERS issues an annual financial report that can be obtained at www.psers.pa.us.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 8 PENSION PLAN (CONTINUED)

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service. Benefits are generally equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined by the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

All members are fully vested in their individual balance in the Members' Savings Account. All non-vested members may receive a refund of their individual balance of member contributions and interest from the Members' Savings Account upon termination of public school employment. Vested members who enrolled prior to July 1, 2011 may elect to receive a return of their accumulated contributions and interest upon their retirement which results in a reduced monthly annuity. Vested Class T-E and T-F members cannot withdraw their accumulated contributions and interest from the Members' Savings Account upon their retirement.

Contributions

The contribution policy is established in the Code and requires contributions by active members, employers and the Commonwealth.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 8 PENSION PLAN (CONTINUED)

Contributions (Continued)

Member Contributions:

- Active members who joined the PSERS prior to July 22, 1983 contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the PSERS after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.
- Members who joined the PSERS after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The School's contractually required contribution rate for fiscal year ended June 30, 2018, was 30.03% of covered payroll (29.20% for 2017), actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School for the years ended June 30, 2018, 2017, 2016 and 2015, amounted to \$1,441,168, \$1,409,257, \$828,652, and \$1,185,384, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the School reported a liability of \$17,780,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017.

The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the School's proportion was 0.0360%, which was a decrease of 0.0042% from its proportion measured as of June 30, 2017.

For the fiscal year ended June 30, 2018, the School recognized pension expense of \$2,031,330. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 8 PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 185,000	\$ (107,000)
Changes in assumptions	483,000	-
Net difference between projected and actual investment earnings	412,000	-
Changes in proportions	1,015,000	(2,441,000)
Contributions subsequent to the measurement date	<u>1,441,168</u>	<u>-</u>
	<u>\$ 3,536,168</u>	<u>\$ (2,548,000)</u>

\$1,441,168 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	
2018	\$ 381,000
2019	(26,000)
2020	(370,000)
2021	<u>(438,000)</u>
	<u>\$ (453,000)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by rolling forward PSERS' total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.25%, includes inflation at 2.75%
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and real wage growth and merit or seniority increases of 2.25%
- Mortality rates were based on the RP-2014 Mortality Tables for males and females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 8 PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	(20.0%)	1.1%
	<u>100.00%</u>	

The above was PSERS' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School's proportionate share of the net pension liability to change in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 8 PENSION PLAN (CONTINUED)

Sensitivity of the School's proportionate share of the net pension liability to change in the discount rate (Continued)

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
The School's proportionate share of the net pension liability	\$ 21,885,000	\$ 17,780,000	\$ 14,314,000

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PSERS Comprehensive Annual Financial Report, which can be found on the PSERS's website at www.psers.pa.us.

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS

Health Insurance Premium Assistance Program

PSERS provides a Health Insurance Premium Assistance Program (Premium Assistance) for all eligible annuitants who qualify and elect to participate. The Program is a governmental cost sharing, multi-employer other postemployment benefit plan (OPEB). Under this program, employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS' fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of services and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Benefits Provided

Participating eligible retirees are entitled to receive Premium Assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive Premium Assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The Schools' contractually required contribution rate for fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the School were \$37,205 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows or Resources Related to OPEB:

At June 30, 2018, the School reported a liability of \$253,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward PSERS' total OPEB liability as of June 30, 2016 to June 30, 2017. The School's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2018, the District's proportion was 0.3044 percent, which was a decrease of 0.0109 from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the School recognized OPEB expense of \$(59,205). At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ (34,000)
Net difference between projected and actual investment earnings	1,000	-
Changes in proportions	-	(78,000)
Contributions subsequent to the measurement date	<u>37,205</u>	<u>-</u>
	<u>\$ 38,205</u>	<u>\$ (112,000)</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows or Resources Related to OPEB (Continued):

\$37,205 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ending June 30:</u>	
2018	\$ (18,000)
2019	(18,000)
2020	(18,000)
2021	(19,000)
2022	(19,000)
Thereafter	(19,000)
	<u>\$ (111,000)</u>

Actuarial Assumptions

The total OPEB liability as of June 30, 2017 was determined by rolling forward PSERS' total OPEB liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in Premium Assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
 - Eligible retirees will elect to participate pre age 65 at 50%.
 - Eligible retirees will elect to participate post age 65 at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows or Resources Related to OPEB (Continued):

- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits).

Investments consist primarily of short term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the Program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

Asset Class	Target	Expected Real Rate of
Cash	76.4%	0.6%
Fixed income	23.6%	1.5%
	<u>100.0%</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

Discount rate

The discount rate used to measure the total OPEB liability was 3.13%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

Due to the short term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the S&P 20 year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure total OPEB liability.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of \$1200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the School's net OPEB liability for June 30, 2017, calculated using current Healthcare cost trends as well as what PSERS' net OPEB liability would be if it's health cost trends were 1-percentage point lower or 1-percentage higher than the current rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The School's proportionate share of the net OPEB liability	\$ 733,000	\$ 733,000	\$ 734,000

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate.

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.13 percent) or higher (4.13 percent) than the current discount rate:

OPEB plan fiduciary net position.

Detailed information about PSERS' fiduciary net position is available in PSERS' Comprehensive Annual Financial Report which can be found on the System's website at www.psers.pa.gov.

NOTE 10 NET POSITION

A net position designation and commitment of fund balance is used to indicate that a portion of the total net position is not appropriable for expenditures because some underlying assets are not available financial resources or are legally segregated for specific future uses. As of June 30, 2018, the Board of Trustees has established net position designations in the amount of \$6,356,483 as shown in the statement of net position.

NOTE 11 GRANT CONTINGENCIES

Grants received are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 12 LITIGATION

The School is, from time to time, involved in claims and lawsuits incidental to its operations. In the opinion of the administration and legal counsel, at this time, the ultimate resolution of these matters will not have an adverse effect on the financial position of the School.

NOTE 13 EMPLOYEE BENEFIT PLAN

The School maintains a savings incentive 403(b) plan for its employees. All employees are eligible. Participants may elect voluntary salary deferrals under the plan up to the maximum permitted by law. The School makes a contribution for certain employees enrolled in the plan at a rate of 5% of their eligible salaries. Contribution expense for the plan amounted to \$344,239 for the year ended June 30, 2018.

NOTE 14 COMPONENT UNIT – DEMEDICI CORPORATION

Cash and Cash Equivalents

DeMedici considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Building and Improvements, Net

Capital asset activity of DeMedici for the year ended June 30, 2018, was as follows:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2018</u>
Building	\$ 2,084,537	\$ -	\$ -	\$ 2,084,537
Building improvements	372,033	-	-	372,033
Less: accumulated depreciation	(755,870)	(62,989)	-	(818,859)
Capital assets, net	<u>\$ 1,700,700</u>	<u>\$ (62,989)</u>	<u>\$ -</u>	<u>\$ 1,637,711</u>

Depreciation expense for the year ended June 30, 2018, was \$62,989.

Operating Leases

DeMedici recognizes scheduled increases in base rental income on a straight-line basis over the lease term. Additional rents are recognized as rental income when received.

Related-Party Transactions

On June 1, 2013, DeMedici entered into a 30-year lease with the School for the rental of its buildings at 2600 South Broad Street, 2630 South Broad Street and 2636 South Broad Street, Philadelphia, PA. Base rentals are due in increasing amounts over the term of the lease. The School paid base rentals of \$494,862 and additional rent, as defined in the lease, of \$250,000 to DeMedici during the year ended June 30, 2018.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 14 COMPONENT UNIT – DEMEDICI CORPORATION (CONTINUED)

Related-Party Transactions (Continued)

DeMedici is a co-borrower with DeMedici II related to \$55,500,000 of Series 2013 bonds for the purchase and improvement of a building used by the School. The total amount of the bond proceeds have been allocated to DeMedici II. The loan is payable in annual payments of principal and interest, which correspond to the repayment or redemption of the bonds that were issued on behalf of DeMedici by the Philadelphia Authority for Industrial Development. The bonds are collateralized by substantially all assets of DeMedici and DeMedici II and a security interest in the lease with the School. The bonds were issued with various maturities, interest rates and principal amounts as follows:

June 15, 2023, 6.00% and \$6,600,000; June 15, 2033, 6.50% and \$15,350,000; and June 15, 2043, 6.75% and \$33,550,000. The balance payable on the bonds was \$53,690,000 at June 30, 2018. DeMedici does not have the intention of having to make payments related to the amount allocated to DeMedici II.

Commitment

DeMedici leases a property from an unrelated party through August 31, 2017, with an option to extend the lease through August 31, 2018. Annual base rentals are \$102,800 during all periods, including the option period.

NOTE 16 COMPONENT UNIT – DEMEDICI II CORPORATION

Bond Issuance Costs

Costs relating to the issuance of bonds are amortized over the term of the bonds using the interest method.

Operating Leases

DeMedici II recognizes scheduled increases in base rental income on a straight-line basis over the lease term. Additional rents are recognized as rental income when received.

Cash, Restricted Cash and Cash Equivalents

DeMedici II considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Land, Building and Improvements

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2018</u>
Land	\$ 12,376,795	\$ -	\$ -	\$ 12,376,795
Buildings	21,963,547	-	-	21,963,547
Building improvements	15,857,379	-	-	15,857,379
Furniture and equipment	2,276,912	-	-	2,276,912
Less: accumulated depreciation	(4,793,689)	(1,356,004)	-	(6,149,693)
Capital assets, net	<u>\$ 47,680,944</u>	<u>\$ (1,356,004)</u>	<u>\$ -</u>	<u>\$ 46,324,940</u>

Depreciation expense for the year ended June 30, 2018, was \$1,356,004.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 16 COMPONENT UNIT – DEMEDICI II CORPORATION (CONTINUED)

Long-Term Debt and Restricted Cash and Cash Equivalents

On June 28, 2013, DeMedici II and DeMedici, as co-borrowers, borrowed \$55,500,000 of Series 2013 bonds for purchase and improvement of a building to be used by the School. The total amount of the bond proceeds was allocated to DeMedici II. The loan is payable in annual payments of principal and interest, which correspond to the Philadelphia Authority for Industrial Development. The bonds are collateralized by substantially all assets of DeMedici II and DeMedici and a security interest in the lease with the School.

The bonds were issued with various maturities, interest rates and principal amounts as follows: June 15, 2023, 6.00% and \$6,600,000; June 15, 2033, 6.50% and \$15,350,000; and June 15, 2043, 6.75% and \$33,550,000. The bonds include an unamortized premium in the amount of \$279,497 at June 30, 2018. The balance payable on the bonds was \$53,969,497 at June 30, 2018.

As of June 30, 2018, principal and interest requirements of long-term debt based on the schedule of mandatory redemption are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 850,000	\$ 3,221,400	\$ 4,071,400
2020	900,000	3,170,400	4,070,400
2021	955,000	3,116,400	4,071,400
2022	1,010,000	3,059,100	4,069,100
2023	1,075,000	2,998,500	4,073,500
2024-2028	6,475,000	15,104,375	21,579,375
2029-2033	8,875,000	12,706,525	21,581,525
2034-2038	12,215,000	9,781,088	21,996,088
2039-2043	21,335,000	5,063,513	26,398,513
	53,690,000	58,221,301	111,911,301
Unamortized Premium	279,497	-	279,497
	<u>\$ 53,969,497</u>	<u>\$ 58,221,301</u>	<u>\$ 112,190,798</u>

Interest expense, which includes \$40,000 amortization of bond issuance costs and is net of amortization of premium on long-term debt of \$11,180, amounts to \$3,626,595.

DeMedici II also maintains several cash and cash equivalent accounts whereby the funds are restricted pursuant to the bond issuance agreement. Total restricted cash and cash equivalents as of June 30, 2018 was \$5,381,495, of which \$5,330,079 was being held for future payments of principal and interest.

Related-Party Transactions

DeMedici II has received advances of \$515,949 from the School and \$1,857,078 from DeMedici as of June 30, 2018. The advances, which are noninterest-bearing, do not have stated repayment terms and are expected to be repaid within one year.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

NOTE 17 RESTATEMENT OF NET POSITION/CHANGE IN ACCOUNTING PRINCIPLE

In 2018, the School adopted GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The net position (deficit) as of July 1, 2017 in the Statement of Activities of the government-wide financial statements has been restated as follows:

Net Position (Deficit) - Beginning of Year	\$ (6,773,244)
Restatement of Net Position for GASB 75	<u>(866,000)</u>
Net Position (Deficit) - Beginning of Year, Restated	<u>\$ (7,639,244)</u>

REQUIRED SUPPLEMENTARY
INFORMATION

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	With Final <u>Budget</u>
Revenues				
Local Educational Agencies	\$27,692,384	\$27,938,181	\$27,876,206	\$ (61,975)
State Sources	496,000	505,848	482,549	(23,299)
Federal Sources	1,894,699	2,357,442	2,415,733	58,291
Other Sources	<u>922,622</u>	<u>758,035</u>	<u>737,406</u>	<u>(20,629)</u>
Total Revenues	<u>31,005,705</u>	<u>31,559,506</u>	<u>31,511,894</u>	<u>(47,612)</u>
Expenditures				
Instruction	16,520,643	16,333,374	15,415,796	917,578
Support Services	14,042,490	13,945,799	13,549,716	396,083
Non-Instructional Services	257,021	408,439	406,263	2,176
Debt Service	12,500	12,500	138,843	(126,343)
Capital Outlays	<u>-</u>	<u>-</u>	<u>914,456</u>	<u>(914,456)</u>
Total Expenditures	<u>30,832,654</u>	<u>30,700,112</u>	<u>30,425,074</u>	<u>275,038</u>
Net Change in Fund Balance	173,051	859,394	1,086,820	227,426
Fund Balance, Beginning of Year	<u>7,356,483</u>	<u>7,356,483</u>	<u>7,356,483</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 7,529,534</u>	<u>\$ 8,215,877</u>	<u>\$ 8,443,303</u>	<u>\$ 227,426</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHERS' PENSION PLAN
Last 10 Fiscal Years*

	2018	2017	2016	2015
School's Proportion of the net pension liability	0.0360%	0.0402%	0.0437%	0.0430%
School's proportionate share of the net pension liability	\$ 17,780,000	\$ 19,922,000	\$ 18,929,000	\$ 17,020,000
School's covered payroll	\$ 4,789,974	\$ 5,212,374	\$ 5,627,116	\$ 5,484,174
School's proportionate share of the net pension liability as a percentage of its covered payroll	371.19%	382.21%	336.39%	310.35%
Plan fiduciary net position as a percentage of the total Pension liability	51.84%	50.14%	54.36%	57.24%

* This schedule is intended to illustrate information for 10 years. However, until a 10-year trend is compiled, the School is presenting information for those years for which information is available.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEACHERS' PENSION PLAN
Last 10 Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School's contractually required contribution	\$ 1,441,168	\$ 1,409,257	\$ 1,338,849	\$ 1,185,384
School's contributions in relation to the contractually required contribution	<u>(1,441,168)</u>	<u>(1,409,257)</u>	<u>(828,652)</u>	<u>(1,185,384)</u>
School's contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (510,197)</u>	<u>\$ -</u>
School's covered payroll	\$ 4,789,974	\$ 5,212,374	\$ 5,627,116	\$ 5,484,174
Contribution as a percentage of covered payroll	30.09%	27.04%	23.79%	21.61%

* This schedule is intended to illustrate information for 10 years. However, until a 10-year trend is compiled, the School is presenting information for those years for which information is available.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last 10 Fiscal Years*

	<u>2018</u>
School's proportion of the net OPEB liability	0.0360%
School's proportionate share of the net OPEB liability	\$ 733,000
School's covered payroll	4,789,974
School's proportionate share of the net OPEB liability as as percentage of its covered payroll	15.30%
Plan fiduciary net position as a percentage of the total OPEB liability	5.47%

*The School adopted GASB 75 on a prospective basis in fiscal year 2018;
therefore only one year is presented in the above schedule.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
OPEB - SCHEDULE OF SCHOOL CONTRIBUTIONS
Last 10 Fiscal Years*

	2018
Contractually required contribution	\$ 37,205
Contributions in relation to the contractually required contribution	37,205
Contribution deficiency (excess)	\$ -
Commission's covered payroll	\$ 4,789,974
Contributions as a percentage of covered payroll	0.78%

Notes to Schedule:

Valuation Date:

Actuarially determined contribution rates are calculated as of June 30, 2017, one years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.

Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.

Asset valuation method: Market Value

Participation rate: 63% of eligible retirees are assumed to elect premium assistance.

Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependents beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitants Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

*The School adopted GASB 75 on a prospective basis in fiscal year 2018; therefore only one year is presented in the above schedule.

SINGLE AUDIT

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrual (Deferral) Beginning of Year	Amount Received	Amount Expended	Accrual (Deferral) End of Year	Subrecipient Awards
FEDERAL AWARDS							
<u>U.S. Department of Agriculture</u>							
Pass-through PA Department of Education							
National School Lunch Program	10.555	362	\$ 91,294	\$ 514,654	\$ 593,442	\$ 170,082	\$ -
School Breakfast Program	10.553	365	11,518	57,633	72,493	26,378	-
Pass-through PA Department of Agriculture							
National School Lunch Program - Food Commodities	10.555	362	-	61,039	61,039	-	-
Total Child Nutrition Cluster			102,812	633,326	726,974	196,460	-
Total U.S. Department of Agriculture			102,812	633,326	726,974	196,460	-
<u>U.S. Department of Education</u>							
Pass-through PA Department of Education							
Title I Grants to Local Educational Agencies	84.010	013-170901	210,212	216,136	5,924	-	-
Title I Grants to Local Educational Agencies	84.010	013-180901	-	1,870,410	2,121,658 *	251,248	-
Total Title 1 Grants to Local Educational Agencies			210,212	2,086,546	2,127,582	251,248	-
Title IV - Student Support & Academic Enrichment	84.424	144-180901	-	48,938	48,938	-	-
Total Title IV Grants to LEAs			-	48,938	48,938	-	-
Title IIA - Grants to Local Agencies	84.367	020-170901	(54)	(54)	-	-	-
Title IIA - Grants to Local Agencies	84.367	020-180901	-	176,251	186,846	10,595	-
Total Title II Grants to LEAs			(54)	176,197	186,846	10,595	-
Pass-through the School District of Philadelphia							
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	-	-	313,478	313,478	-
Total Special Education - Grants to States (IDEA, Part B)			-	-	313,478	313,478	-
Total U.S. Department of Education			210,158	2,311,681	2,676,844	575,321	-
<u>U.S. Department of Health and Human Services</u>							
Pass-through PA Department of Education							
Medical Assistance Program	93.778	044-007597	44,000	44,000	46,000	46,000	-
Total U.S Department of Health and Human Services			44,000	44,000	46,000	46,000	-
Total Federal Awards			\$ 356,970	\$ 2,989,007	\$ 3,449,818	\$ 817,781	\$ -

* Denotes Program Tested as Major

See accompanying notes to Schedule of Expenditures of Federal Awards.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

NOTE 1: GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of Philadelphia Performing Arts: A String Theory Charter School (the "School"). The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200. *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the School's financial statements.

NOTE 3: FEDERAL PROGRAM

The following represents the major federal programs:

<u>Name of Program</u>	<u>CFDA Number</u>
Title I Grants to Local Education Agencies	84.010

NOTE 4: INDIRECT COST RATE

The School has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Philadelphia Performing Arts: A String Theory Charter School (a nonprofit organization), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Philadelphia Performing Arts: A String Theory Charter School's basic financial statements, and have issued our report thereon dated December 10, 2018. The financial statements of DeMedici Corporation and DeMedici II Corporation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with DeMedici Corporation and DeMedici II Corporation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Zelenkofske Axlerod LLC

CERTIFIED PUBLIC ACCOUNTANTS

Experience. Expertise. Accountability.

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Zelenkofske Axlerod LLC

ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
December 10, 2018



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Compliance

We have audited Philadelphia Performing Arts: A String Theory Charter School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Philadelphia Performing Arts: A String Theory Charter School's major federal program for the year ended June 30, 2018. Philadelphia Performing Arts: A String Theory Charter School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Philadelphia Performing Arts: A String Theory Charter School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 US. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Philadelphia Performing Arts: A String Theory Charter School's compliance.

Opinion on the Major Federal Program

In our opinion, Philadelphia Performing Arts: A String Theory Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.



Report on Internal Control Over Compliance

Management of Philadelphia Performing Arts: A String Theory Charter School, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Philadelphia Performing Arts: A String Theory Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Zelenkofske Axlerod LLC

ZELENKOFSCHE AXELROD LLC

Jamison, Pennsylvania
December 10, 2018

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? ____ yes X no
- Significant Deficiencies identified that are not considered to be material weaknesses?
____ yes X none reported

Noncompliance material to financial statements noted? ____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? ____ yes X no
- Significant Deficiencies identified that are not considered to be material weaknesses?
____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Uniform Guidance. ____ yes X no

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
#84.010	Title I Grants to Local Education Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes ____ no

Section II: Financial Statement Findings (GAGAS)

None Noted

Section II: Federal Award Findings and Questioned Costs (Major Program – Uniform Guidance)

None Noted

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2018

None for fiscal year ended June 30, 2017

**PHILADELPHIA PERFORMING ARTS:
A STRING THEORY CHARTER SCHOOL**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
FOR THE YEAR ENDED JUNE 30, 2017

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PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
FOR THE YEAR ENDED JUNE 30, 2017

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Philadelphia Performing Arts: A String Theory Charter School (a nonprofit organization) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Philadelphia Performing Arts: A String Theory Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 financial statements are free from material misstatement. The financial statements of DeMedici Corporation and DeMedici II Corporation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

<i>Harrisburg</i>	<i>Philadelphia</i>	<i>Pittsburgh</i>	<i>Greensburg</i>
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103	210 Tollgate Hill Rd Greensburg, PA 15601 724.834.2151 Fax 724.834.5969

Zelenkofske Axelrod LLC

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania
Page 2

Opinions

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Philadelphia Performing Arts: A String Theory Charter School as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the School adopted the provisions of GASB Statement No. 80, "*Blending Requirements for Certain Component Units – An Amendment of GASB Statement No.14,*" and GASB Statement No. 82, "*Pension Issues – An amendment of GASB Statements No. 67, No.68 and No. 73.*" The adoption of the statements had no effect on the reported amounts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 4-7 and 39-41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Philadelphia Performing Arts: A String Theory Charter School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

Zelenkofske Axelrod LLC

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania
Page 3

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2017, on our consideration of Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting and compliance.

Jamison, Pennsylvania
December 6, 2017

Zelenkofske Axelrod LLC
ZELENKOF SKE AXELROD LLC

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

The Board of Trustees of Philadelphia Performing Arts: A String Theory Charter School (the School) offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented herein in conjunction with the School's financial statements.

Financial Highlights

- Total governmental revenues for the year ended June 30, 2017 were \$29,205,988 representing an increase of \$4,687,026 from June 30, 2016.
- At June 30, 2017, the school reported an ending governmental fund balance of \$7,356,483 representing an increase of \$298,608 from June 30, 2016.
- The School's cash and cash equivalents balance at June 30, 2017 was \$7,151,084, representing an increase of \$1,563,182 from June 30, 2016.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the School's financial statements. The School's financial statements as presented comprise four components: (1) management's discussion and analysis (this section), (2) the basic financial statements, (3) the required supplementary information, and (4) the federal awards section.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the School's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *statement of activities* presents information showing how the School's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. expenditures accrued in one year but paid in subsequent years, and depreciation).

The government-wide financial statements report on the function of the School that is principally supported by subsidies from school districts whose constituents attend the School. The School's function is to provide an alternative educational opportunity.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Overview of the Financial Statements (Continued)

Fund Financial Statements

A fund is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The School, like governmental type entities, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School has three fund types: the governmental general fund, the proprietary fund and the fiduciary agency fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Supplementary Information

The governmental fund budgetary comparison schedule and the pension information comprise required supplementary information presented for purposes of additional analysis and is prepared using a basis consistent with accounting principles generally accepted in the United States of America ("GAAP") for state reporting requirements.

Single Audit Requirements

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Government-Wide Financial Analysis

Management has adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which requires an analysis of current and prior-year balances.

	<u>2017</u>	<u>2016</u>
Current Assets	\$ 9,885,189	\$ 8,696,609
Noncurrent Assets	<u>3,893,581</u>	<u>2,771,149</u>
Total Assets	<u>13,778,770</u>	<u>11,467,758</u>
Deferred Outflows of Resources	<u>5,106,330</u>	<u>3,977,793</u>
Current Liabilities	4,214,165	2,939,460
Noncurrent Liabilities	<u>20,058,179</u>	<u>19,113,433</u>
Total Liabilities	<u>24,272,344</u>	<u>22,052,893</u>
Deferred Inflows of Resources	<u>1,386,000</u>	<u>136,382</u>
Net Position		
Net Investment in Capital Assets	2,347,804	1,165,275
Unrestricted	<u>(9,121,048)</u>	<u>(7,908,999)</u>
Total Net Position (Deficit)	<u>\$ (6,773,244)</u>	<u>\$ (6,743,724)</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Overview of the Financial Statements (Continued)

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded assets and deferred outflows by \$6,773,244 as of June 30, 2017.

Government-Wide Financial Analysis (Continued)

The School's revenues are predominately received from the School District of Philadelphia, based on student enrollment. For the year ended June 30, 2017, the School's expenditures of \$30,283,382 exceeded its revenues of \$30,253,862 by \$29,520.

	<u>2017</u>	<u>2016</u>
Revenues		
Local Educational Agencies	\$ 25,923,893	\$ 21,769,220
Other Local Sources	341,890	554,695
State Sources	515,994	409,113
Federal Sources	2,424,211	1,785,934
Food Services	1,047,874	834,575
Total Revenues	<u>30,253,862</u>	<u>25,353,537</u>
Expenses		
Instructional Programs	15,282,927	12,091,496
Pupil Personnel Services	797,362	595,327
Instructional Staff Services	707,172	802,647
Administrative Services	3,840,291	3,575,880
Pupil Health Services	227,463	191,608
Buisness Services	556,903	477,894
Operation and Maintenance of Plant Services	6,996,715	6,219,412
Other Support Services	472,362	537,384
Student Activities	426,233	393,851
Food Services	965,028	832,137
Interest Expense	10,926	8,647
Total Expenses	<u>30,283,382</u>	<u>25,726,283</u>
Change in Net Position	(29,520)	(372,746)
Net Position (Deficit) - Beginning	<u>(6,743,724)</u>	<u>(6,370,978)</u>
Net Position (Deficit) - Ending	<u>\$ (6,773,244)</u>	<u>\$ (6,743,724)</u>

Governmental Funds

The focus of the School's *governmental fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, the fund balance may serve as a useful measure of a School's net resources available for spending for program purposes at the end of the year.

The general fund is the chief operating fund of the School. At the end of the current year, the unassigned fund balance of the general fund was \$2,221,744, while the total general fund balance was \$7,356,483.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Overview of the Financial Statements (Continued)

General Fund Budgetary Highlights

There were no annual operating budget amendments made during the year that were required to be submitted to the Commonwealth of Pennsylvania.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2017, the School's net investment in capital assets for its total governmental activities and business-type activity totaled \$2,347,804 (net of accumulated depreciation and related debt). This net investment in capital assets includes classroom and office furniture, computers, classroom materials, student transportation vehicles and leasehold improvements.

Long-Term Debt

At June 30, 2017, the School's governmental activities and business-type activity had outstanding notes payable and capital lease obligations of \$286,079.

Economic Factors and Next Year's Budgets and Rates

The School does not foresee any substantial variations with next year's economic factors, budgets or rates.

Future Events that will Financially Impact the School

The School does not foresee any future events at this time that will financially impact the School.

Contacting the School's Financial Management

The financial report is designed to provide interested parties a general overview of the School's finances. Questions regarding any of the information provided in this report should be addressed to: Chief Executive Officer, Philadelphia Performing Arts: A String Theory Charter School, 1600 Vine Street, Philadelphia, Pennsylvania 19102, or call (215) 551- 4000.

Component Units

DeMedici Corporation ("DeMedici") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that DeMedici is legally separate from the School. Complete financial statements of DeMedici can be obtained at 2600 South Broad Street, Philadelphia, Pennsylvania 19145.

DeMedici II Corporation ("DeMedici II") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that DeMedici II is legally separate from the School. Complete financial statements of DeMedici II can be obtained at 1600 Vine Street, Philadelphia, Pennsylvania 19102.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Business- Type Activities	Totals	Component Unit - DeMedici	Component Unit - DeMedici II
<u>Assets</u>					
Cash and Cash Equivalents	\$ 7,151,084	\$ 47,329	\$ 7,198,413	\$ 488,798	\$ 32,984
Restricted Cash and Cash Equivalents	-	-	-	-	4,650,783
State Subsidies Receivable	395,550	5,177	400,727	-	-
Federal Subsidies Receivable	260,136	102,812	362,948	-	-
Local Subsidies Receivable	292,305	-	292,305	-	-
Other Receivables	251,132	-	251,132	-	-
Due From Other Funds	487,477	-	487,477	-	-
Due From Related Parties	6,436	-	6,436	1,361,093	-
Prepaid Expenses - Current Portion	378,175	106,711	484,886	-	-
Prepaid Expenses, Net of Current Portion	1,259,699	-	1,259,699	-	-
Inventories	400,865	-	400,865	-	-
Capital Assets:					
Land	-	-	-	-	12,376,795
Buildings and Improvements	-	-	-	2,456,570	37,820,926
Leasehold Improvements	2,164,976	-	2,164,976	-	-
Furniture and Equipment	1,350,128	405,710	1,755,838	-	2,276,912
Transportation Equipment	67,338	-	67,338	-	-
Software	948,828	-	948,828	-	-
Less: Accumulated Depreciation	(2,087,719)	(215,379)	(2,303,098)	(755,870)	(4,793,688)
Bond Issuance Costs	-	-	-	-	1,039,397
Deferred Rent	-	-	-	-	1,054,169
Total Assets	<u>13,326,410</u>	<u>452,360</u>	<u>13,778,770</u>	<u>3,550,591</u>	<u>54,458,278</u>
<u>Deferred Outflows of Resources</u>					
Related To Pensions	<u>5,106,330</u>	<u>-</u>	<u>5,106,330</u>	<u>-</u>	<u>-</u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2017

	Governmental Activities	Business- Type Activities	Totals	Component Unit - DeMedici	Component Unit - DeMedici II
<u>Liabilities</u>					
Accounts Payable and Accrued Expenses	1,398,078	50,412	1,448,490	175	3,375
Accrued Salary and Benefits	1,684,459	-	1,684,459	-	-
Due To General Fund	-	487,477	487,477	-	-
Due To Affiliates	11,938	-	11,938	-	-
Due To Related Party	3,053	-	3,053	-	1,364,476
Deferred Revenue	428,848	-	428,848	-	-
Long-term Obligations:					
Due Within One Year:					
Deferred Rent	-	-	-	36,000	-
Capital Lease Obligations	133,566	-	133,566	-	-
Notes Payable	-	16,334	16,334	-	-
Long-term Debt	-	-	-	-	800,000
Due Beyond One Year:					
Deferred Rent	-	-	-	34,696	-
Capital Lease Obligations	136,179	-	136,179	-	-
Long-term Debt, Net of Unamortized Premium of \$290,677	-	-	-	-	53,980,677
Pension Liability	19,922,000	-	19,922,000	-	-
Total Liabilities	23,718,121	554,223	24,272,344	70,871	56,148,528
Commitments and Contingencies (Notes 8, 9, 10, 11, 13, 14, 15, 16 and 17)					
<u>Deferred Inflows of Resources</u>					
Related to Pensions	1,386,000	-	1,386,000	-	-
<u>Net Position</u>					
Net Investment in Capital Assets	2,173,806	173,998	2,347,804	-	-
Unrestricted:					
Designated by the Board for Prepaid Rent	539,500	-	539,500	-	-
Designated by the Board for Capital Improvements	2,296,000	-	2,296,000	-	-
Designated by the Board for Unforeseen Contingencies	800,000	-	800,000	-	-
Undesignated	(12,480,687)	(275,861)	(12,756,548)	3,479,720	(1,690,250)
Total Unrestricted	(8,845,187)	(275,861)	(9,121,048)	3,479,720	(1,690,250)
Total Net Position (Deficit)	\$ (6,671,381)	\$ (101,863)	\$ (6,773,244)	\$ 3,479,720	\$ (1,690,250)

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions	Expenses	Charges for Service	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position				
				Governmental Activities	Business-Type Activities	Total	Component Unit DeMedici	Component Unit DeMedici II
Governmental activities:								
Instruction:								
Regular Instruction Programs	\$ 12,499,416	\$ -	\$ 2,506,059	\$ (9,993,357)	\$ -	\$ (9,993,357)	\$ -	\$ -
Special Instruction Programs	2,780,099	-	-	(2,780,099)	-	(2,780,099)	-	-
Other Instructional Programs	3,412	-	-	(3,412)	-	(3,412)	-	-
Support Services:								
Pupil Personnel	797,362	-	-	(797,362)	-	(797,362)	-	-
Instructional Staff	707,172	-	-	(707,172)	-	(707,172)	-	-
Administration	3,840,291	-	-	(3,840,291)	-	(3,840,291)	-	-
Pupil Health	227,463	-	58,487	(168,976)	-	(168,976)	-	-
Business	556,903	-	-	(556,903)	-	(556,903)	-	-
Operation and Maintenance of Plant Services	6,996,715	-	375,659	(6,621,056)	-	(6,621,056)	-	-
Central	472,362	-	-	(472,362)	-	(472,362)	-	-
Operation of Non-Instructional Services:								
Student Activities	197,020	-	-	(197,020)	-	(197,020)	-	-
Community Service	229,213	-	-	(229,213)	-	(229,213)	-	-
Debt Service	10,926	-	-	(10,926)	-	(10,926)	-	-
Total Governmental Activities	29,318,354	-	2,940,205	(26,378,149)	-	(26,378,149)	-	-
Business-Type Activities								
Food Service	965,028	373,958	673,916	-	82,846	82,846	-	-
Total Primary Government Activities	\$ 30,283,382	\$ 373,958	\$ 3,614,121	(26,378,149)	82,846	(26,295,303)	-	-
Component Units								
DeMedici Corporation	-	-	-	-	-	-	(216,535)	-
DeMedici II Corporation	-	-	-	-	-	-	-	(5,276,749)
General Revenues								
Local Educational Agencies				25,923,893	-	25,923,893	-	-
Rental Income				-	-	-	744,862	4,420,262
Other Revenue				341,890	-	341,890	1,087	7,547
Total General Revenue				26,265,783	-	26,265,783	745,949	4,427,809
Change in Net Position				(112,366)	82,846	(29,520)	529,414	(848,940)
Net Position (Deficit) - Beginning of Year				(6,559,015)	(184,709)	(6,743,724)	2,950,306	(841,310)
Net Position (Deficit) - End of Year				\$ (6,671,381)	\$ (101,863)	\$ (6,773,244)	\$ 3,479,720	\$ (1,690,250)

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2017

	<u>General Fund</u>
<u>Assets</u>	
Assets	
Cash	\$ 7,151,084
State Subsidies Receivable	395,550
Federal Subsidies Receivable	260,136
Local Subsidies Receivable	292,305
Other Receivables	251,132
Due from Other Funds	487,477
Due from Related Party	6,436
Inventories	400,865
Prepaid Expenses	<u>1,637,874</u>
Total Assets	<u>\$ 10,882,859</u>
<u>Liabilities and Fund Balance</u>	
Liabilities	
Accounts Payable and Accrued Expenses	\$ 1,398,078
Accrued Salary and Benefits	1,684,459
Due to Affiliates	11,938
Due to Related Party	3,053
Deferred Revenue	<u>428,848</u>
Total Liabilities	<u>3,526,376</u>
Fund Balance	
Nonspendable	2,038,739
Committed - Capital Improvements	2,296,000
Committed - Unforeseen Contingencies	800,000
Unassigned	<u>2,221,744</u>
Total Fund Balance	<u>7,356,483</u>
Total Liabilities and Fund Balance	<u>\$ 10,882,859</u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total Fund Balance for Governmental Fund \$ 7,356,483

Total Net Position Reported for Governmental Activities in the Statement
of Net Position is Different because:

Capital Assets used in governmental funds are not financial resources and
therefore, are not reported in the fund. Those assets consist of:

Leasehold Improvements	2,164,976	
Furniture and Equipment	1,350,128	
Transportation Equipment	67,338	
Software	948,828	
Less: Accumulated Depreciation	<u>(2,087,719)</u>	
		2,443,551

Long-term liabilities that pertain to the governmental fund,
including notes payable, are not due and payable in the current
period and therefore are not reported as fund liabilities. All liabilities,
both current and long-term, are reported in the statement of net position.
Those liabilities consist of:

Notes payable and capital lease obligations	(269,745)	
Net pension liability, net of contractual liability	<u>(19,922,000)</u>	
		(20,191,745)

Deferred outflows and inflows of resources related to pensions are
applicable to future periods and, therefore, are not reported in
the government fund. Balances at year end are:

Deferred outflows of resources related to pensions	5,106,330	
Deferred inflows of resources related to pensions	<u>(1,386,000)</u>	
		<u>3,720,330</u>

Total Net Position (Deficit) of Governmental Activities \$ (6,671,381)

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>
Revenues	
Local Educational Agency Assistance	\$ 25,923,893
Other local sources	341,890
State sources	515,994
Federal sources	<u>2,424,211</u>
Total Revenues	<u>29,205,988</u>
Expenditures	
Instruction	13,704,363
Support Services	13,111,118
Non-Instructional Services	391,461
Debt Service	279,190
Capital Outlays	<u>1,821,997</u>
Total Expenditures	<u>29,308,129</u>
Excess (Deficit) Revenues Over Expenditures	(102,141)
Other Financing Sources (Uses):	
Proceeds from Capital Lease Obligations	<u>400,749</u>
Net Change in Fund Balance	298,608
Fund Balance - Beginning of Year	<u>7,057,875</u>
Fund Balance - End of Year	<u>\$ 7,356,483</u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2017

Net Change in Fund Balance - Total Governmental Fund	\$	298,608
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Amounts Reported for Governmental Activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities, assets are capitalized and the cost is allocated over
their estimated useful lives and reported as depreciation expense, as follows:

Capital Outlays	1,821,997	
Depreciation Expense	<u>(472,217)</u>	
		1,349,780

The governmental fund reports note proceeds as financing sources, while
repayments of note principal and capital lease obligations are reported
as expenditures. In the statement of net position, however, issuing debt
increases long-term liabilities and does not affect the statement of activities,
and repayment of principal reduces the liability. The net effect of these
differences in the treatment of notes payable, is as follows:

Proceeds from Capital Lease Obligations	(400,749)	
Repayments of notes and capital lease obligations	<u>268,255</u>	
		(132,494)

The governmental fund reports pension contributions as expenditures. However,
in the statement of activities, the cost incurred for future pension benefits is
reported as pension expense:

		<u>(1,628,260)</u>
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Change in Net Position of Governmental Activities	\$	<u>(112,366)</u>
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The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017

	<u>Enterprise Fund</u>
	<u>Food Service</u>
	<u>Fund</u>
<u>Assets</u>	
Assets	
Current Assets:	
Cash	\$ 47,329
State Subsidies Receivable	5,177
Federal Subsidies Receivable	102,812
Prepaid Expenses	<u>106,711</u>
Total Current Assets	<u>262,029</u>
Capital Assets:	
Furniture and Equipment	405,711
Less: Accumulated Depreciation	<u>(215,380)</u>
Total Capital Assets, Net	<u>190,331</u>
Total Assets	<u>\$ 452,360</u>
<u>Liabilities</u>	
Liabilities	
Current Liabilities:	
Accounts Payable	\$ 50,412
Due to General Fund	487,477
Long-term Debt, Current Portion	<u>16,334</u>
Total Current Liabilities	554,223
<u>Net Position</u>	
Unrestricted Deficit	<u>(101,863)</u>
Total Liabilities and Net Position	<u>\$ 452,360</u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
Operating Revenues	
Food Service Revenues	<u>\$ 373,958</u>
Operating Expenses	
Management Service Costs	819,230
Administrative	63,843
Salaries and Related Benefits	25,510
Depreciation	<u>56,445</u>
Total Operating Expenses	<u>965,028</u>
Operating Loss	<u>(591,070)</u>
Nonoperating Revenues:	
Federal Sources	642,905
State Sources	<u>31,011</u>
Total Nonoperating Revenues	<u>673,916</u>
Change In Net Position	82,846
Net Position (Deficit) - Beginning of Year	<u>(184,709)</u>
Net Position (Deficit) - End of Year	<u>\$ (101,863)</u>

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
Cash Flows From Operating Activities	
Cash Received From (Paid To)	
Food Services	\$ 373,958
Payments to Suppliers	(841,486)
Payments to Employees	<u>(19,848)</u>
Net Cash Used in Operating Activities	<u>(487,376)</u>
Cash Flows from Investing Activities	
Additions of Property and Equipment	<u>(9,335)</u>
Cash Flows From Non-Capital Financing Activities	
Federal Sources	635,255
State Sources	33,026
Payment on Long-term Debt	(16,334)
Internal Balances	<u>(601,850)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>50,097</u>
Net Decrease in Cash	(446,614)
Cash, Beginning of Year	<u>493,943</u>
Cash, End of Year	<u>\$ 47,329</u>
Reconciliation of Operating Income to Net Cash Used in	
Operating Activities	
Operating Loss	\$ (591,070)
Adjustments to Reconcile Operating Income to Net Cash	
Used in Operating Activities	
Depreciation Expense	56,445
Commodities Expense	38,482
Change in Assets and Liabilities	
Receivables	807
Accounts Payable	10,371
Prepays	<u>(2,411)</u>
Net Cash Used in Operating Activities	<u>\$ (487,376)</u>

Noncash Transactions:

The School received commodities during fiscal year 2017 totaling \$38,482.

The accompanying notes are an integral part of the financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND
JUNE 30, 2017

	<u>Total Agency Fund</u>
<u>Assets</u>	
Cash	<u>\$ 280,850</u>
<u>Liabilities</u>	
Due to Student Groups	<u>280,850</u>
<u>Net Position</u>	
Unrestricted	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Philadelphia Performing Arts: A String Theory Charter School (the School) is organized as a nonprofit corporation in Pennsylvania to operate a charter school in accordance with Pennsylvania Act 22 of 1997 (the "Act") and is operating under a charter school contract ending on June 30, 2019. The School is located in Philadelphia, Pennsylvania. During the 2016-2017 school year, the School served students in grades K through 12.

The School has financial accountability and control over all activities related to the students' education. The School receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. The reporting entity of the School is based upon criteria set forth by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and 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 accompanying financial statements present the activities of the School. The School is not a component unit of another reporting entity. The decision to include a potential component unit in the School's reporting entity is based on several criteria, including legal standing, dependency, and financial accountability. As described below, the School has identified two component units.

Component Units

DeMedici Corporation ("DeMedici") and DeMedici II Corporation ("DeMedici II") are legally separate, tax-exempt component units of the School. DeMedici and DeMedici II were organized to acquire and construct the School's facilities. Although the School does not control the timing or amounts of receipts from DeMedici and DeMedici II, the majority of resources and income thereon that DeMedici and DeMedici II hold are restricted to the activities of the School. Because these restricted resources held by DeMedici and DeMedici II can only be used by or for the benefit of the School, DeMedici and DeMedici II are considered component units of the School and are discretely presented in the School's financial statements.

Basis of Presentation

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the School's accounting policies are described below.

The School adopted statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*, which identifies the hierarchy of generally accepted accounting principles in the context of the current governmental financial reporting environment.

DeMedici and DeMedici II are accounted for under GAAP as applied to not-for-profit entities and use the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report on the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of the School's function are offset by program revenues. These statements include the financial activities of the primary government; fiduciary funds are excluded.

The fund financial statements (governmental fund balance sheet and statement of governmental fund revenues, expenditures and changes in fund balance) report on the School's general fund.

C) Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements:

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The School reports the following major governmental fund:

General Fund – The general fund is the operating fund of the School and accounts for all operating revenues and expenditures of the School.

The School reports the following proprietary fund:

Food Service fund – An enterprise fund is required to be used to account for operations for which a fee is charged to external users for goods and services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third-party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the School's enterprise fund are charges to students for sales of food. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Fund financial statements (continued)

The School reports the following fiduciary agency fund:

Student Activities Fund – The agency fund is used to account for assets held by the School for student groups and is managed by the students. The agency fund is purely custodial in nature and does not involve a measurement of operations.

Net Position

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, classifies net position into three components – net investment in capital assets; restricted; and unrestricted.

These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.
- Restricted – This component of net position consists of constraints placed on the use of net assets through external constraints imposed by creditors such as through debt covenants, grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Balance Classification Policies and Procedures

The School follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the classification of the School's fund balance into five components: nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as follows:

- Nonspendable – This category is for amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to remain intact. The School's nonspendable fund balance comprises inventories and prepaid expenses.
- Restricted – This category is the part of the fund balance that is restricted to be spent for a specific purpose. The constraints on these amounts must be externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or by enabling legislation.
- Committed – This category is the portion of the fund balance that can only be used for specific purposes as a result of formal action by the School's highest level of authority.
- Assigned – This category reflects funds that the School intends to use for a specific purpose but is not considered restricted or committed.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Fund Balance Classification Policies and Procedures (continued)

- Unassigned – This category represents the part of the spendable fund balance that has not been categorized as nonspendable, restricted, committed, or assigned.

Budgets and Budgetary Accounting

The School adopts an annual budget on a basis consistent with GAAP for the general fund. The School is required to present the adopted and final budgeted revenues and expenditures for the general fund that were filed and accepted by the Labor, Education and Community Services Comptroller's Office

Use of Estimates

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

Cash and Cash Equivalents

The School's cash consists of cash on hand and demand deposits. For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Prepaid Expenses and Prepaid Rent

Prepaid expenses at June 30, 2017 include amounts for payments to vendors for services applicable to future accounting periods such as rental payments, insurance premiums and retainage for professional services.

Receivables

Receivables primarily consist of amounts due from federal, state and local authorities. Receivables are stated at the amount management expects to collect. As of June 30, 2017, based on historical experience, no allowance for doubtful accounts has been established.

Capital Assets

The School's capital assets, which include leasehold improvements and furniture and equipment, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a threshold level of \$2,500 for capitalizing assets. The School does not possess any infrastructure.

The infrastructure is owned by DeMedici and DeMedici II, which are shown discretely. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the assets, which range from five to thirty-nine years.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Deferred Outflows / Inflows of Resources

Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of net position and related disclosures. In compliance with Statement No. 63, the statement of net position includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Advertising Costs

All costs associated with advertising and promotions are expensed in the year incurred.

Income Tax Status

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

Uncertain Tax Positions

The School accounts for uncertainty in income taxes in which tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of June 30, 2017, the School had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. Additionally, the School had no interest or penalties related to income taxes.

The School files an income tax return in the U.S. federal jurisdiction. With few exceptions, the School is no longer subject to U.S. federal tax examinations by taxing authorities for years before June 30, 2014.

Pensions

The School follows Statement No. 68, *Accounting and Financial Reporting for Pensions, An Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Under Statements No. 68 and No. 71, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (the "PSERS") and additions to / deductions from the PSERS fiduciary net position have been determined on the same basis as they are reported by the PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms and investments are reported at fair value.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Adoption of Government Accounting Standards Board Statements

The School adopted the provisions of GASB Statement No. 80, "*Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14.*" The adoption of this statement had no effect on the reported amounts.

The School adopted the provisions of GASB Statement No. 82, "*Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.*" The adoption of this statement had no effect on the reported amounts.

Pending Changes in Accounting Principles

In March 2016 the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements.*" The School is required to adopt Statement No. 81 for its fiscal year 2018 financial statements.

In November 2016 the GASB issued Statement No. 83, "*Certain Asset Retirement Obligations.*" The School is required to adopt Statement No. 83 for its fiscal year 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, "*Fiduciary Activities.*" The School is required to adopt Statement No. 84 for its fiscal year 2020 financial statements.

In March 2017, the GASB issued Statement No. 85, "*Omnibus 2017.*" The School is required to adopt Statement No. 85 for its fiscal year 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, "*Certain Debt Extinguishment Issues.*" The School is required to adopt Statement No. 86 for its fiscal year 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, "*Leases.*" The School is required to adopt Statement No. 87 for its fiscal year 2021 financial statements.

The School has not yet completed the various analyses required to estimate the financial statement impact of these new pronouncements.

Subsequent Events

The School has evaluated subsequent events through December 6, 2017, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 2 CASH, RESTRICTED CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, the School's, DeMedici's and DeMedici II's deposits may not be returned to the School, DeMedici and DeMedici II. The School, DeMedici and DeMedici II monitor custodial credit risk by periodically reviewing the Federal Deposit Insurance Corporation's ("FDIC") limits and published credit ratings of its depository banks. Accounts are insured by the FDIC up to \$250,000 for all accounts kept at one financial institution. Under Pennsylvania Act 72, financial institutions pledge collateral on a pooled basis to secure public deposits in excess of FDIC insurance limits. The School's accounts are covered under this act.

As of June 30, 2017, the custodial risk is as follows:

Reconciliation to the Financial Statements

	Governmental Activities	Business-Type Activity	Component Unit - DeMedici	Component Unit - DeMedici II
Uninsured and Collateralized Amount	\$ 6,777,479	\$ 47,239	\$ 238,798	\$ 4,400,783
Total	\$ 6,777,479	\$ 47,239	\$ 238,798	\$ 4,400,783
	Governmental Activities	Business-Type Activity	Component Unit - DeMedici	Component Unit - DeMedici II
Cash exposed to custodial risk	\$ 6,777,479	\$ 47,329	\$ 238,798	\$ 4,400,783
Plus: insured amount	500,000	-	250,000	282,984
Total	\$ 7,277,479	\$ 47,329	\$ 488,798	\$ 4,683,767

NOTE 3 RECEIVABLES

Receivables at June 30, 2017 primarily consist of amounts due from federal, state, and local authorities. All receivables are considered collectible due to the stable condition of the state and private programs.

A summary of receivables is as follows:

<u>Receivables</u>	Governmental Activities	Business-Type Activity
Federal	\$ 260,136	\$ 102,812
State	395,550	5,177
Local	292,305	-
	\$ 947,991	\$ 107,989

NOTE 4 LOCAL EDUCATIONAL AGENCY ASSISTANCE (REVENUE)

The School receives funding from the School District of Philadelphia (the "School District") on a monthly basis based on enrollment. The rate of funding per student is determined on an annual basis.

For each non-special education student enrolled, charter schools receive no less than the budgeted total expenditure per average daily membership of the prior school as defined by the Act. For the year ended June 30, 2017, the rate for most of the students was \$8,142 per year per student, plus additional funding for special education students and transportation. The annual rate is paid monthly and is prorated if a student enters or

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 5 CAPITAL ASSETS, NET

Capital asset activity for the year ended June 30, 2017, was as follows:

<u>Governmental Activities</u>	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Leasehold Improvements	\$ 952,098	\$ 1,221,374	\$ (18,496)	\$ 2,164,976
Furniture and Equipment	749,505	600,823	-	1,350,128
Transportation Equipment	67,338	-	-	67,338
Software	948,828	-	-	948,828
Less: Accumulated Depreciation	(1,615,502)	(472,217)	-	(2,087,719)
Capital Assets, Net	\$ 1,112,267	\$ 1,349,780	\$ (18,496)	\$ 2,443,551

Depreciation expense for the year ended June 30, 2017, was \$472,217.

<u>Business-Type Activities</u>	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Furniture and Equipment	\$ 396,375	\$ 9,335	\$ -	\$ 405,710
Less: Accumulated Depreciation	(158,934)	(56,445)	-	(215,379)
Capital assets, net	\$ 237,441	\$ (47,110)	\$ -	\$ 190,331

Depreciation expense for the year ended June 30, 2017, was \$56,445.

NOTE 6 OBLIGATIONS UNDER LEASES

Operating Leases

The School leases copiers for use at its facility under various operating lease agreements that expire at various times through June 30, 2018. As of June 30, 2017, the future minimum payments of the leases are as follows:

<u>Year ending June 30:</u>	
2018	\$ 21,370

Capital Lease

In September 2014, the School entered into a three-year agreement with Apple Financial to lease computers at a cost of \$403,437. The agreement has an annual interest rate of 2.08% and is payable in annual installments of \$140,100. In September 2016, the School entered into a three-year agreement with Apple Financial to lease computers at a cost of \$400,749. The agreement has an annual interest rate of 2.08% and is payable in annual installments of \$138,842. Future minimum lease payments required under the capital lease as of June 30, 2017, are as follows:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 6 OBLIGATIONS UNDER LEASES (CONTINUED)

<u>Year ending June 30:</u>	
2018	\$ 140,100
2019	138,848
	<u>\$ 278,948</u>
Total minimum lease payments	\$ 278,948
Less: amount representing interest	<u>(9,203)</u>
Present value of minimum lease payments	269,745
Less: current portion of capital lease obligations	<u>(133,566)</u>
Long-term portion of capital lease obligations	<u>\$ 136,179</u>

Changes in capital lease obligations were as follows for the year ended June 30, 2017:

Balance, July 1, 2016	\$ 137,251
Additions	400,749
Repayments of principal	<u>(268,255)</u>
Balance, June 30, 2017	<u>\$ 269,745</u>

Interest expense on the capital leases was \$10,926 for the year ended June 30, 2017.

NOTE 7 RELATED-PARTY TRANSACTIONS

Facility Leasing Arrangements

On June 1, 2013, the School entered into a 30-year non-cancelable lease with DeMedici for the rental of its buildings at 2600 South Broad Street, 2630 South Broad Street and 2636 South Broad Street, Philadelphia, PA. Base rentals are due in increasing amounts over the term of the lease. The School paid base rentals of \$494,862 and additional rent, as defined in the lease, of \$250,000 to DeMedici during the year ended June 30, 2017.

On June 1, 2013, the School entered into a 30-year non-cancelable operating lease for the rental of its facilities with DeMedici II. The lease will expire on June 15, 2043. Rent expense under the lease, which includes base rent recognized ratably over the term of the lease and additional rent, as defined in the lease agreement, was \$4,420,262 for the year ended June 30, 2017. All of the School's assets are pledged as collateral with the leases.

The following is a schedule of future minimum lease payments under the operating leases at June 30, 2017:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 7 RELATED-PARTY TRANSACTIONS (CONTINUED)

Facility Leasing Arrangements (Continued)

<u>Year ending June 30:</u>	<u>Amount</u>
2018	\$ 4,397,775
2019	4,399,775
2020	4,398,775
2021	4,399,775
2022	4,397,475
2023-2027	21,998,900
2028-2032	22,002,675
2033-2037	21,998,950
2038-2042	21,994,062
2043	8,801,538
	<u>\$ 118,789,700</u>

DeMedici II has a debt obligation as described in Note 17; the School entered into a lease agreement with DeMedici and DeMedici II as a means to transfer funds sufficient to service this debt.

The School prepaid rent to DeMedici and DeMedici II and it is anticipated that approximately \$36,000 and \$49,000, respectively, will be recognized annually as rent expense. The remaining balance of prepaid rent as of June 30, 2017 to DeMedici and DeMedici II is \$70,696 and \$1,274,003, respectively.

The following is a schedule of anticipated amortization of prepaid rent at June 30, 2017:

<u>Year ending June 30:</u>	<u>Amount</u>
2018	\$ 85,000
2019	83,696
2020	49,000
2021	49,000
2022	49,000
Thereafter	<u>1,029,003</u>
	1,344,699
Current Portion	<u>85,000</u>
Long-term Portion	<u>\$ 1,259,699</u>

Related-Party Receivables and Payables

The School received advances of \$3,053 from DeMedici and has advanced \$6,436 to DeMedici II as of June 30, 2017. The advances, which are noninterest-bearing, do not have stated repayment terms but are expected to be repaid within one year.

Management Fee

The School has an agreement with a nonprofit charter school management organization through 2017, which is automatically renewable on an annual basis. The management organization advises the School on educational and fiscal policies, as well as assisting with fundraising, and provides facilities management. The fee is based on a per student amount for the year. The base amounts due for fiscal year ending June 30, 2018 are \$1,180,438 for the Academic Service Fee and \$208,313 for the Facilities Management Fee.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 8 LONG-TERM DEBT

The School financed the purchase of software for a three-year term.

Following are changes in long-term debt for the year ended June 30, 2017:

Governmental Activities:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Note payable	\$ 14,514	\$ -	\$ 14,514	\$ -

Business-Type Activity:

In July 2013, the School obtained a 60-month loan with the Nutrition Group for \$81,669 to finance the food service equipment. The loan is noninterest-bearing. The balance of the loan at June 30, 2017 was \$16,334

Future maturities of the loan as of June 30, 2017, are as follows:

Year ending June 30:	<u>Principal</u>
2018	\$ 16,334

NOTE 9 PENSION PLAN

Plan Description

The School contributes to a governmental cost-sharing, multiple-employer defined benefit pension plan administered by the PSERS, which provides retirement and disability benefits, legislative-mandated ad-hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The members eligible to participate in the PSERS include all full-time public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any reporting entities in the Commonwealth of Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 PA.C.S. 8101-8535) (the "code") assigns the authority to establish and amend benefit provisions to the PSERS. The PSERS issues an annual financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits under the provisions of the 1975 revision of the Code by the Pennsylvania General Assembly, members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserved the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 9 PENSION PLAN (CONTINUED)

benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

All members are fully vested in their individual balance in the Members' Savings Account. All non-vested members may receive a refund of their individual balance of member contributions and interest from the Members' Savings Account upon termination of public school employment. Vested members who enrolled prior to July 1, 2011 may elect to receive a return of their accumulated contributions and interest upon their retirement which results in a reduced monthly annuity. Vested Class T-E and T-F members cannot withdraw their accumulated contributions and interest from the Members' Savings Account upon their retirement.

Contributions

The contribution policy is established in the Code and requires contributions by active members, employers and the Commonwealth.

Member Contributions:

- Active members who joined the PSERS prior to July 22, 1983 contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the PSERS prior to, on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the PSERS after June 30, 2001 and before July 1, 2011, contribute at 7.50% (Membership Class T-D). For all new hires and for members who elected Membership Class T-D, the higher contribution rates began with service rendered on or after January 1, 2002.
- Members who joined the PSERS after June 30, 2011, automatically contribute at the Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 that, in future fiscal years, could cause the Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 9 PENSION PLAN (CONTINUED)

Contributions (Continued)

With the "shared risk" program, members benefit when investments of the fund are doing well and share some of the risk when investments underperform. Class T-E or T-F contribution rates stay within the specified range, but may increase or decrease by .5% within the specified range once every three years, starting July 2015. The contribution rates for these two membership classes will never go below the base rate or above the highest percentage rate.

The School's contractually required contribution rate for fiscal year ended June 30, 2017, was 30.03% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School for the years ended June 30, 2017, 2016, 2015 and 2014, amounted to \$2,590,466, \$1,338,849, \$1,185,384 and \$956,618, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2017, the School reported a liability of \$19,922,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2015 to June 30, 2016.

The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the School's proportion was 0.0402%, which was a decrease of 0.0035% from its proportion measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the School recognized pension expense of \$2,590,466. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ (166,000)
Changes in assumptions	719,000	-
Net difference between projected and actual investment earnings	1,110,000	-
Changes in proportions	-	-
	1,853,000	(1,220,000)
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	1,424,330	-
	<u>\$ 5,106,330</u>	<u>\$ (1,386,000)</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 9 PENSION PLAN (CONTINUED)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (Continued)

\$1,424,330 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	
2017	\$ 854,000
2018	854,000
2019	476,000
2020	<u>112,000</u>
	<u>\$ 2,296,000</u>

Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward the System's total pension liability as of the June 30, 2015 actuarial valuation to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.25%, includes inflation at 2.75%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 2.75% and real wage growth and merit or seniority increases of 2.25%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 9 PENSION PLAN (CONTINUED)

Plan Assets

The PSERS's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS's Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School's proportionate share of the net pension liability to change in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
The School's proportionate share of the net pension liability	\$ 24,370,000	\$ 19,922,000	\$ 16,184,000

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PSERS financial report, which can be found on the PSERS's website at www.psers.state.pa.us.

NOTE 10 NET POSITION

A net position designation and commitment of fund balance is used to indicate that a portion of the total net position is not appropriable for expenditures because some underlying assets are not available financial resources or are legally segregated for specific future uses. As of June 30, 2017, the Board of Trustees has established net position designations and commitments in fund balance in the amount of \$3,635,500 as shown in the statement of net position.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 11 GRANT CONTINGENCIES

Grants received are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

NOTE 12 LITIGATION

The School is, from time to time, involved in claims and lawsuits incidental to its operations. In the opinion of the administration and legal counsel, at this time, the ultimate resolution of these matters will not have an adverse effect on the financial position of the School.

NOTE 13 EMPLOYEE BENEFIT PLAN

The School maintains a savings incentive plan 403(b) for its employees. All employees are eligible. Participants may elect voluntary salary deferrals under the plan up to the maximum permitted by law. The School makes a contribution for certain employees enrolled in the plan at a rate of 5% of their eligible salaries. Contribution expense for the plan amounted to \$304,205 for the year ended June 30, 2017.

NOTE 14 COMPONENT UNIT – DEMEDICI CORPORATION

Cash and Cash Equivalents

DeMedici considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Building and Improvements, Net

Capital asset activity of DeMedici for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Building	\$ 2,084,537	\$ -	\$ -	\$ 2,084,537
Building improvements	372,033	-	-	372,033
Less: accumulated depreciation	(692,881)	(62,989)	-	(755,870)
Capital assets, net	<u>\$ 1,763,689</u>	<u>\$ (62,989)</u>	<u>\$ -</u>	<u>\$ 1,700,700</u>

Depreciation expense for the year ended June 30, 2017, was \$62,989.

Operating Leases

DeMedici recognizes scheduled increases in base rental income on a straight-line basis over the lease term. Additional rents are recognized as rental income when received.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 14 COMPONENT UNIT – DEMEDICI CORPORATION (CONTINUED)

Related-Party Transactions

On June 1, 2013, DeMedici entered into a 30-year lease with the School for the rental of its buildings at 2600 South Broad Street, 2630 South Broad Street and 2636 South Broad Street, Philadelphia, PA. Base rentals are due in increasing amounts over the term of the lease. The School paid base rentals of \$494,862 and additional rent, as defined in the lease, of \$250,000 to DeMedici during the year ended June 30, 2017.

DeMedici is a co-borrower with DeMedici II related to \$55,500,000 of Series 2013 bonds for the purchase and improvement of a building used by the School. The total amount of the bond proceeds have been allocated to DeMedici II. The loan is payable in annual payments of principal and interest, which correspond to the repayment or redemption of the bonds that were issued on behalf of DeMedici by the Philadelphia Authority for Industrial Development. The bonds are collateralized by substantially all assets of DeMedici and DeMedici II and a security interest in the lease with the School. The bonds were issued with various maturities, interest rates and principal amounts as follows: June 15, 2023, 6.00% and \$6,600,000; June 15, 2033, 6.50% and \$15,350,000; and June 15, 2043, 6.75% and \$33,550,000. The balance payable on the bonds was \$54,490,000 at

Related-Party Transactions (continued)

June 30, 2017. DeMedici does not have the intention of having to make payments related to the amount allocated to DeMedici II.

Commitment

DeMedici leases a property from an unrelated party through August 31, 2017, with an option to extend the lease through August 31, 2018. Annual base rentals are \$102,800 during all periods, including the option period.

NOTE 15 COMPONENT UNIT – DEMEDICI II CORPORATION

Bond Issuance Costs

Costs relating to the issuance of bonds are amortized over the term of the bonds using the interest method.

Operating Leases

DeMedici II recognizes scheduled increases in base rental income on a straight-line basis over the lease term. Additional rents are recognized as rental income when received.

Cash, Restricted Cash and Cash Equivalents

DeMedici II considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 15 COMPONENT UNIT – DEMEDICI II CORPORATION (CONTINUED)

Land, Building and Improvements

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2016
Land	\$ 12,376,795	\$ -	\$ -	\$ 12,376,795
Building	21,963,547	-	-	21,963,547
Building improvements	15,857,379	-	-	15,857,379
Furniture and equipment	2,276,912	-	-	2,276,912
Less: accumulated depreciation	(3,437,125)	(1,356,564)	-	(4,793,689)
Capital assets, net	<u>\$ 49,037,508</u>	<u>\$ (1,356,564)</u>	<u>\$ -</u>	<u>\$ 47,680,944</u>

Depreciation expense for the year ended June 30, 2017, was \$1,356,564.

Long-Term Debt and Restricted Cash and Cash Equivalents

On June 28, 2013, DeMedici II and DeMedici, as co-borrowers, borrowed \$55,500,000 of Series 2013 bonds for purchase and improvement of a building to be used by the School. The total amount of the bond proceeds was allocated to DeMedici II. The loan is payable in annual payments of principal and interest, which correspond to the Philadelphia Authority for Industrial Development. The bonds are collateralized by substantially all assets of DeMedici II and DeMedici and a security interest in the lease with the School. The bonds were issued with various maturities, interest rates and principal amounts as follows: June 15, 2023, 6.00% and \$6,600,000; June 15, 2033, 6.50% and \$15,350,000; and June 15, 2043, 6.75% and \$33,550,000. The bonds include an unamortized premium in the amount of \$290,677 at June 30, 2017. The balance payable on the bonds was \$54,490,000 at June 30, 2017.

As of June 30, 2017, principal and interest requirements of long-term debt based on the schedule of mandatory redemption are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 800,000	\$ 3,269,400	\$ 4,069,400
2019	850,000	3,221,400	4,071,400
2020	900,000	3,170,400	4,070,400
2021	955,000	3,116,400	4,071,400
2022	1,010,000	3,059,100	4,069,100
2023-2027	6,085,000	15,250,025	21,335,025
2028-2032	8,335,000	13,248,300	21,583,300
2033-2037	11,450,000	10,465,075	21,915,075
2038-2042	15,860,000	6,134,063	21,994,063
2043	<u>8,245,000</u>	<u>556,537</u>	<u>8,801,537</u>
	54,490,000	61,490,700	115,980,700
Unamortized Premium	<u>290,677</u>	<u>-</u>	<u>290,677</u>
	<u>\$ 54,780,677</u>	<u>\$ 61,490,700</u>	<u>\$ 116,271,377</u>

Interest expense, which includes \$40,000 amortization of bond issuance costs and is net of amortization of premium on long-term debt of \$11,180, amounts to \$3,669,795.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 15 COMPONENT UNIT – DEMEDICI II CORPORATION (CONTINUED)

Long-Term Debt and Restricted Cash and Cash Equivalents

DeMedici II also maintains several cash and cash equivalent accounts whereby the funds are restricted pursuant to the bond issuance agreement. Total restricted cash and cash equivalents as of June 30, 2017 was \$4,650,783, of which \$4,410,434 was being held for future payments of principal and interest.

Related-Party Transactions

DeMedici II has received advances of \$6,436 from the School and \$1,358,040 from DeMedici as of June 30, 2017. The advances, which are noninterest-bearing, do not have stated repayment terms and are expected to be repaid within one year.

REQUIRED SUPPLEMENTARY
INFORMATION

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final Budget</u>
Revenues				
Local Educational Agencies	\$25,946,986	\$25,946,986	\$25,923,893	\$ (23,093)
State Sources	496,000	496,000	515,994	19,994
Federal Sources	1,714,770	1,714,770	2,424,211	709,441
Other Sources	<u>732,191</u>	<u>732,191</u>	<u>341,890</u>	<u>(390,301)</u>
Total Revenues	<u>28,889,947</u>	<u>28,889,947</u>	<u>29,205,988</u>	<u>316,041</u>
Expenditures				
Instruction	14,290,798	14,290,798	13,704,363	586,435
Support Services	13,514,327	13,514,327	13,111,118	403,209
Non-Instructional Services	456,391	456,391	391,460	64,931
Debt Service	-	-	279,191	(279,191)
Capital Outlays	<u>-</u>	<u>-</u>	<u>1,821,997</u>	<u>(1,821,997)</u>
Total Expenditures	<u>28,261,516</u>	<u>28,261,516</u>	<u>29,308,129</u>	<u>(1,046,613)</u>
Excess of Revenues Over Expenditures	628,431	628,431	(102,141)	(730,572)
Other Financing Sources (Uses)				
Proceeds from Capital Lease Obligations	<u>-</u>	<u>-</u>	<u>400,749</u>	<u>400,749</u>
Net Change in Fund Balance	628,431	628,431	298,608	(329,823)
Fund Balance, Beginning of Year	<u>7,065,548</u>	<u>7,065,548</u>	<u>7,057,875</u>	<u>(7,673)</u>
Fund Balance, End of Year	<u>\$ 7,693,979</u>	<u>\$ 7,693,979</u>	<u>\$ 7,356,483</u>	<u>\$ (337,496)</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHERS' PENSION PLAN
Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
School's Proportion of the net pension liability	0.0402%	0.0437%	0.0430%
School's proportionate share of the net pension liability	\$ 19,922,000	\$ 18,929,000	\$ 17,020,000
School's covered- employee payroll	\$ 5,212,374	\$ 5,627,116	\$ 5,484,174
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	382.21%	336.39%	310.35%
Plan fiduciary net position as a percentage of the total Pension liability	50.14%	54.36%	57.24%

* This schedule is intended to illustrate information for 10 years. However, until a 10-year trend is compiled, the School is presenting information for those years for which information is available.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF SCHOOL CONTRIBUTIONS
TEACHERS' PENSION PLAN
Last 10 Fiscal Years*

Philadelphia Performing Arts: A String Theory Charter School
Schedule of the School's Contributions
Teachers' Pension Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>
School's contractually required contribution	\$ 1,409,257	\$ 1,338,849	\$ 1,185,384
School's contributions in relation to the contractually required contribution	<u>(1,409,257)</u>	<u>(828,652)</u>	<u>(1,185,384)</u>
School's contribution deficiency	<u>\$ -</u>	<u>\$ (510,197)</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 5,212,374	\$ 5,627,116	\$ 5,484,174
Contribution as a percentage of covered - employee payroll	27.04%	23.79%	21.61%

* This schedule is intended to illustrate information for 10 years. However, until a 10-year trend is compiled, the School is presenting information for those years for which information is available.

SINGLE AUDIT

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrual (Deferral) Beginning of Year	Amount Received	Amount Expended	Accrual (Deferral) End of Year	Subrecipient Awards
FEDERAL AWARDS							
<u>U.S. Department of Agriculture</u>							
Pass-through PA Department of Education							
National School Lunch Program	10.555	362	\$ 114,917	\$ 560,438	\$ 536,815	* \$ 91,294	\$ -
School Breakfast Program	10.553	365	18,728	74,817	67,607	* 11,518	-
Pass-through PA Department of Agriculture							
National School Lunch Program - Food Commodities	10.555	362	-	38,482	38,482	-	-
Total Child Nutrition Cluster			133,645	673,737	642,904	102,812	-
Total U.S. Department of Agriculture			133,645	673,737	642,904	102,812	-
<u>U.S. Department of Education</u>							
Pass-through PA Department of Education							
Title I Grants to Local Educational Agencies	84.010	013-16-0901	281,050	282,120	1,070	-	-
Title I Grants to Local Educational Agencies	84.010	013-17-0901	-	1,678,563	1,888,774	210,211	-
Supporting Effective Instruction State Grants	84.367	020-17-0901	-	25,445	25,391	(54)	-
Special Education Grants to States	84.027	N/A	-	-	292,305	292,305	-
Total U.S. Department of Education			281,050	1,986,128	2,207,540	502,462	-
<u>U.S. Department of Health and Human Services</u>							
Pass-through PA Department of Education							
Medical Assistance Program	93.778		-	6,983	50,983	44,000	-
Total U.S Department of Health and Human Services			-	6,983	50,983	44,000	-
Total Federal Awards			\$ 414,695	\$ 2,666,848	\$ 2,901,427	\$ 649,274	\$ -

* Denotes Program Tested as Major

See accompanying notes to Schedule of Expenditures of Federal Awards.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

NOTE 1: GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of Philadelphia Performing Arts: A String Theory Charter School (the "School"). The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the School's financial statements.

NOTE 3: PROGRAM CLUSTERS

In accordance with 2 CFR section 200.518 of the Uniform Guidance, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555

NOTE 4: INDIRECT COST RATE

The School has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Zelenkofske Axelrod LLC

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Philadelphia Performing Arts: A String Theory Charter School (a nonprofit organization), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Philadelphia Performing Arts: A String Theory Charter School's basic financial statements, and have issued our report thereon dated December 6, 2017. The financial statements of DeMedici Corporation and DeMedici II Corporation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with DeMedici Corporation and DeMedici II Corporation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Harrisburg	Philadelphia	Pittsburgh	Greensburg
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103	210 Tollgate Hill Rd Greensburg, PA 15601 724.834.2151 Fax 724.834.5969

Zelenkofske Axelrod LLC

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
December 6, 2017

Zelenkofske Axelrod LLC

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Compliance

We have audited Philadelphia Performing Arts: A String Theory Charter School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Philadelphia Performing Arts: A String Theory Charter School's major federal programs for the year ended June 30, 2017. Philadelphia Performing Arts: A String Theory Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Philadelphia Performing Arts: A String Theory Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *US. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Philadelphia Performing Arts: A String Theory Charter School's compliance.

Opinion on the Major Federal Program

In our opinion, Philadelphia Performing Arts: A String Theory Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

<i>Harrisburg</i>	<i>Philadelphia</i>	<i>Pittsburgh</i>	<i>Greensburg</i>
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 47 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103	210 Tollgate Hill Rd Greensburg, PA 15601 724.834.2151 Fax 724.834.5969

Zelenkofske Axelrod LLC

Report on Internal Control Over Compliance

Management of Philadelphia Performing Arts: A String Theory Charter School, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Philadelphia Performing Arts: A String Theory Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


ZELENKOSKE AXELROD LLC

Jamison, Pennsylvania
December 6, 2017

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? ____ yes X no
- Significant Deficiencies identified that are not considered to be material weaknesses?
____ yes X none reported

Noncompliance material to financial statements noted? ____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? ____ yes X no
- Significant Deficiencies identified that are not considered to be material weaknesses?
____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Uniform Guidance. ____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Programs</u>
-----------------------	---------------------------------

#10.553	School Breakfast Program
---------	--------------------------

#10.555	National School Lunch Program
---------	-------------------------------

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes ____ no

Part 2: Findings - Financial Statement Audit (GAGAS)

None Noted

Part 3: Audit Findings and Questioned Costs (Major Program – Uniform Guidance)

None Noted

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2017

None for fiscal year ended June 30, 2017

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APPENDIX C

FINANCIAL PROJECTIONS OF THE CORPORATION

Payment by the Bond Trustee* of principal of and interest on the Series 2020 Bonds is dependent upon the Corporation's ability to make payments of Base Rentals to the Borrowers and the Borrowers' ability to make payments on the Series 2020 Bonds. The Corporation's ability to make rental payments when due under the Leases depends on the timely receipt of School District Payments.

The Corporation has operated the School since 2000. The Corporation's projections of revenues and expenses for the fiscal years ended June 30, 2021 through 2025 below (the "Projections") were prepared by management of the Corporation ("Management") in consultation with the Business Manager, and have not been independently verified by any other party. No feasibility studies have been conducted with respect to operations of the Corporation pertinent to the Series 2020 Bonds. The projections prepared by the Corporation are "forward-looking statements" and are subject to the general qualifications and limitations described under "INTRODUCTION – Forward-Looking Statements" with respect to such statements. Neither the Authority nor the Underwriter has independently verified such projections, and make no representation nor give any assurance that such projections, or the assumptions underlying them, are complete or correct. Further, the projections relate only to a limited number of fiscal years and consequently do not cover the entire period that the Series 2020 Bonds will be outstanding.

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

No assurance can be given that the results described in the projections will be achieved, or that there has been no change in underlying considerations since the date of the Limited Offering Memorandum. Refer to the following pages to review the Projections, their underlying assumptions, and the various factors that could cause actual results to differ significantly from projected results.

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

See "RISK FACTORS – Reliance on Financial Projections."

The Projections below were prepared according to the assumptions set forth on the following page.

* Capitalized terms used but not defined in this Appendix C shall have the meanings set forth in the forepart of the Limited Offering Memorandum or in Appendix A or Appendix E thereto.

Enrollment & Revenue Assumptions:

- The School operates at the enrollment levels indicated in the projections table
- The School intentionally over enrolls Philadelphia students throughout the school year at a de minimis cost. The model results in 100% funded enrollment during the entire school year and receipts of the maximum funding subsidy receipt possible.
- Special education enrollment is projected at 16.6%.
- The SDP subsidy rate increases 3% each year.
- Rental reimbursement rate of \$160 per k-6 and \$220 per student 7-12
- Commonwealth subsidies and federal grants remain flat each year.

Expense Assumptions:

- Salaries increase 3% per year with level staffing
- Medical insurance increases each year 7%
- Employees are enrolled in PSERS (Commonwealth's Pension System) or 403(b) retirement plan. PSERS 2020 - 2021 employer contribution is 34.51% and 403(b) plan employer contribution are 5%. The School has 66% of employees' salaries are in the 403(b) plan.
- All other operating expenses are projected to increase 3% based on historical data.

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**Philadelphia Performing Arts Charter School
5 Year Multi-Year Budget**

Fiscal Year	2020-21	2021-22	2022-23	2023-24	2024-25
Budgeted Enrollment	2525	2525	2525	2525	2525
Grades	K-12	K-12	K-12	K-12	K-12
Regular Ed Per Pupil Aid	10,836	11,161	11,496	11,841	12,196
Special Ed Per Pupil Aid	30,442	31,355	32,296	33,265	34,263
Opening Fund Balance - Governmental Fund	12,752,282	14,324,179	16,181,089	17,853,296	19,332,896
Nonspendable Fund Balance	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Unrestricted Fund Balance - Governmental Fund	10,252,282	11,824,179	13,681,089	15,353,296	16,832,896
Summary by Function					
Revenues					
School District Subsidy	35,898,740	36,966,629	38,066,554	39,199,476	40,366,386
Other Local	932,161	953,811	969,622	985,908	1,002,681
State	579,698	409,000	409,989	411,007	412,056
Federal	4,201,055	2,435,646	2,430,714	2,430,714	2,430,714
Total Revenue	41,611,654	40,765,086	41,876,879	43,027,105	44,211,838
Expenditures					
Instruction					
Regular Education	16,265,711	16,281,745	16,893,019	17,549,573	18,211,138
Special Programs	5,956,449	6,154,890	6,361,162	6,573,935	6,793,978
Other Instructional Programs	172,906	54,453	56,046	57,689	59,380
Support Services					
Guidance	776,584	576,318	599,953	622,933	646,932
Social Worker	74,705	76,849	80,470	83,546	86,762
Psychological Services	352,272	362,131	376,141	388,765	401,846
Professional Development	176,334	146,950	148,959	151,027	153,158
Other Support Services	425,891	446,708	461,548	476,967	492,988
Legal Services	405,000	417,150	429,665	442,554	455,831
Office of the CEO	288,327	298,933	310,401	322,009	334,049
Administrative	5,159,350	5,240,711	5,461,002	5,683,962	5,875,486
Pupil Health	262,590	270,468	278,570	286,903	295,474
Business	553,775	570,995	598,123	616,067	634,549
Printing/Copying/Duplication	110,000	113,300	116,699	120,200	123,806
DeMedici I - Additional Rent	350,000	145,000	145,000	145,000	145,000
DeMedici II - Base Rent	3,918,084	3,436,407	3,436,407	3,436,407	3,436,407
DeMedici II - Additional Rent	322,333	322,333	322,333	322,333	322,333
Building Services	2,442,120	2,230,110	2,301,764	2,375,780	2,452,347
Security	399,923	314,728	327,873	341,678	356,184
Technology	804,514	602,299	624,949	646,085	667,990
Noninstructional Services					
Student Activities	456,890	470,475	488,108	506,016	522,274
Extended Day	329,498	337,628	347,756	358,189	368,935
Parent Involvement	24,000	24,720	25,462	26,225	27,012
Total Expenditures	40,027,257	38,895,301	40,191,410	41,533,846	42,863,860
Interest Expense	12,500	12,875	13,261	13,659	14,069
Operating Surplus (Deficit)	1,571,897	1,856,910	1,672,207	1,479,600	1,333,909
Ending Fund Balance - Undesignated	11,824,179	13,681,089	15,353,296	16,832,896	18,166,805
Summary by Major Class					
Salaries	15,617,976	15,427,315	15,890,135	16,366,839	16,857,844
Benefits	7,901,122	8,118,757	8,554,946	9,026,125	9,498,546
Professional Services	6,723,442	6,697,316	6,950,259	7,196,105	7,409,288
Building Services	6,148,292	5,508,352	5,556,490	5,606,073	5,657,143
Other Purchased Services	1,660,797	1,549,175	1,597,376	1,647,258	1,698,885
Supplies and Books	1,275,886	1,052,637	1,084,205	1,116,707	1,150,172
Equipment	699,742	541,748	558,000	574,740	591,982
	40,027,257	38,895,301	40,191,410	41,533,846	42,863,860
Cash Covenant Ratio					
Projected Ending Cash Balance	13,028,241	14,885,151	16,557,358	18,036,958	19,370,867
Required Operating Cash Per Day	109,664	106,562	110,113	113,791	117,435
Days Cash on Hand	119	140	150	159	165
Debt Service Coverage Ratio					
Net Income	1,571,897	1,856,910	1,672,207	1,479,600	1,333,909
Plus: Rent	4,590,417	3,903,740	3,903,740	3,903,740	3,903,740
Net Income Available for Debt Service	6,162,315	5,760,650	5,575,948	5,383,340	5,237,650
Annual Debt Service	3,918,084	3,436,407	3,436,407	3,436,407	3,436,407
Debt Service Coverage Ratio	1.57	1.68	1.62	1.57	1.52

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APPENDIX D

CHARTER SCHOOL LAWS AND FINANCING IN PENNSYLVANIA

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APPENDIX D

CHARTER SCHOOL LAWS AND FINANCING IN PENNSYLVANIA

CHARTER SCHOOLS

General

A charter school is an independent, nonsectarian public school established and operated under a charter from a local board of directors of the school district in which the charter school is located and provides instruction to any of grades K-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 the charter between the authorizing school district and the charter school. Charter schools in Pennsylvania are created pursuant to the Charter School Law. See "SUMMARY OF CERTAIN PROVISIONS OF PENNSYLVANIA CHARTER SCHOOL LAW" herein for additional information on the Charter School Law.

Charters

Generally, charters are effective in the Commonwealth for a period of no less than three years and no more than five years and may be renewed for periods of five years without statutory limit on the number of renewals. See "SUMMARY OF CERTAIN PROVISIONS OF PENNSYLVANIA CHARTER SCHOOL LAW – Term and Form of Charter" and "– Causes for Nonrenewal or Termination" herein.

CHARTER SCHOOL FUNDING

This section provides a brief overview of the Commonwealth's current system for funding charter schools. Prospective purchasers of the Series 2020 Bonds should note that the overview contained below is provided for the convenience of prospective purchasers but is not and does not purport to be comprehensive. Additional information regarding various aspects of charter school funding in the Commonwealth is available through other publicly available sources. Prospective purchasers should note that the law applicable to charter schools in the Commonwealth has developed over time and is subject to further changes in the future. See "RISK FACTORS – Changes in Law; Annual Appropriation; Inadequate School District Payments" in the forepart of this Limited Offering Memorandum.

Calculation of Payments

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. Under the Charter School Law, school districts are required to use prior-year budget expenditures when calculating their per pupil payments.

Beginning in 1997, the PDE instructed school districts to utilize the PDE-363 form to calculate its nonspecial education and special education charter school funding rates under section 1725-A of the Charter School Law, 24 P.S. §17-1725-A. In July 2012, following various meetings and discussions with representatives of the charter school community, school districts, and the Commonwealth of Pennsylvania General Assembly, PDE prepared and issued its (July 2012) version of the Guidelines for Form Completion, PDE-363, Funding for Charter Schools (the "Guidelines"). According to the PDE, the Guidelines were intended to implement the charter school funding requirements of section 1725-A of the Charter School Law, and provide a verifiable process for initial and final calculation of each school district's nonspecial education and special education rates. PDE, through the Guidelines, recognized that the information necessary for determining a school district's expenditures and average daily membership ("ADM") may not be available at the start of a school year, when a district is to first determine its nonspecial education and special education rates under section 1725-A(a)(2) and (3) of the Charter School Law. Therefore, the PDE has indicated that the Guidelines set forth a process to permit additional confidence in the accuracy of rates calculated and paid by each school district. That process ultimately used a school district's annual financial report ("AFR") submitted to PDE under section 218 of the Public School Code, 24 P.S. § 2-218, and ADM as defined in section 2501 of the Public School Code, 24 P.S. § 25-2501, to calculate each school district's final charter school

funding rates. The Guidelines were in use since July 2012, and the PDE purports that they were successful in reducing the number of disputes between school districts and charter schools relating to the accuracy of the calculated rates.

In April 2017, a group of charter schools filed a petition for review in the Commonwealth Court challenging the Guidelines. These charter schools alleged that the Guidelines are inconsistent with section 1725-A of the Charter School Law in that the Guidelines recommend that school districts calculate their charter school funding rates based upon expenditures included in their AFR, rather than the amounts in the budgets submitted to PDE prior to the beginning of the previous school year. Following a hearing on the charter schools' request for a preliminary injunction, the court opined that "the Guidelines [are] flatly inconsistent with the Charter School Law" *First Philadelphia Preparatory Charter Sch., et al. v. Pa. Dep't of Educ., et al.*, No. 159 MD 2017 (Pa. Cmwlth., July 19, 2017 Memorandum Opinion, Pg. 8) (*First Philadelphia*). While the PDE has taken the position that the Commonwealth Court recognized that the Guidelines present a fair and appropriate means to calculate charter school tuition rates, the PDE states that the Commonwealth Court also advised that proper implementation of the process would require legislative amendments. In further proceedings, the Commonwealth Court issued an Opinion stating that the Guidelines are in derogation of the plain language of the Charter School Law, and thus are "*per se* invalid" *First Philadelphia*, No. 159 MD 2017 (Pa. Cmwlth., February 22, 2018 Opinion, Pg. 12).

Accordingly, on March 16, 2018, the PDE issued a statement setting forth the information in the three preceding paragraphs above and providing notice that the PDE was, effectively immediately, rescinding the July 2012 version and all prior versions of the Guidelines. Such notice further indicated that: (i) beginning with the 2018-19 school year, PDE will no longer receive completed PDE-363 forms from school districts or post charter school funding rates on its website, (ii) PDE will not calculate each school district's charter school funding rates using AFR and ADM information and, instead, each school district should calculate its own nonspecial education and special education charter school funding rates pursuant to the direction in section 1725-A(a)(2) and (3) of the Charter School Law and make that information available to charter schools as necessary to explain the amounts paid throughout the school year, and (iii) any disputes concerning the amounts paid by a school district to a charter school should be resolved pursuant to the procedures in section 1725-A(a)(5) and (6) of the Charter School Law. Based upon the foregoing change in the methodology of the calculation of nonspecial education and special education charter school funding rates, there can be no assurance that such revised calculations will not result in a material adverse effect on the ability of the Corporation to make rental payments under the Lease.

On April 19, 2018, the PDE issued further guidance (the "April Guidance") clarifying that *First Philadelphia* has no impact upon the federal fund deductions that should be removed from a school district's total expenditure data used to calculate per-student charter school funding rates, as specified in the PDE-363 calculation. In the April Guidance, PDE further clarified that school districts should continue to use the revised PDE-363 form, issued in April 2018, to calculate tuition rates. In addition, PDE has instructed that if a charter school requests a redirection of funds, it must submit a completed revised PDE-363 form as well as documentation identifying the budget or other financial documents that it used to complete the revised PDE-363 form.

Proposed Charter School Funding Changes

On February 4, 2020, Governor Wolf released his 2020-21 State budget plan, which includes a projected savings of \$280 million gained from proposed charter school funding reductions. First, the 2020-21 budget plan would calculate per pupil special education allocations paid from the State to charter schools using the same formula currently used to determine allocations to traditional public schools. Currently, traditional public schools within a district receive special education allocations based on the severity of the student's disability and the cost related to the student's disability, whereas charter schools receive a set amount per special education student that is calculated using the district's actual expenditures. The proposed budget estimates that the change in special education funding for charter schools would decrease total revenues to charter schools by an estimated \$147 million in 2020-21. Second, the 2020-21 budget plan reduces cyber charter tuition rates paid to cyber charter schools to a flat cyber charter tuition rate of \$9,500 per student per year, which would decrease total revenues to charter schools by an estimated \$133 million in 2020-21. Along with the potential charter school funding changes if the Governor's budget proposal is enacted, the charter school funding formula may also be revised by the State Legislature.

On May 29, 2020, Governor Wolf approved a budget that holds all major education spending at 2019-20 levels, but the budget will be revisited in November 2020 to address the effects of the COVID-19 pandemic.

Method of Payment

Under the Charter School Law, school districts are required to make payments to charter schools in twelve equal monthly payments by the fifth day of each month. If the applicable school district fails to make a payment to the applicable charter school, pursuant to Section 1725-(A)(a)(5) of the Charter School Law, 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 applicable charter school and the applicable school district and make an adjudication as to whether to pay the amount directly to the applicable charter school. In January 2016, PDE announced that due to a 2012 Pennsylvania Commonwealth Court decision, it is no longer allowed to withhold money from a school district and give it to a charter school to settle claims from prior school years (as compared to a current school year) and that it would no longer allow charter schools to bill PDE directly for payments when there are enrollment disputes with school districts for prior school years.

According to guidelines developed by the PDE, each school district completes the Form PDE-363 which is used to calculate the appropriate payment to charter schools for each enrolled regular education student and special education student. The current Form PDE-363 issued by PDE provides for several more deductions for school districts above and beyond the deductions outlined in the applicable statute.

Pursuant to Section 1725-A(a)(5) of the Charter School Law, a charter school may ask the Secretary of Education of the Commonwealth to redirect a school district's per pupil payments when the applicable school district refuses to pay the charter school for educating students residing in such school district. Several charter schools within the School District of Philadelphia ("SDP") have successfully used this alternative funding procedure in conjunction with their disputes with the SDP relating to enrollment caps in order to receive current school year per pupil payments for students enrolled in excess of the enrollment caps established by the SDP and contained in their respective charters.

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 Commonwealth or the federal government.

Division of Charter Schools

On August 24, 2016, Governor Wolf created a division within the state Department of Education dedicated to assisting and improving charter schools called the Division of Charter Schools. This division assists charter schools in setting goals for student achievement, increasing parent and community involvement, ensuring academic and financial responsibility, provide increased site visits to charter schools, post annual charter reports online, and evaluate student achievement data, among other things.

THE SCHOOL DISTRICT OF PHILADELPHIA

The SDP's adopted budget for fiscal year 2020-21 anticipates revenues of approximately \$3.2 billion and obligations of approximately \$3.4 billion, resulting in an overall projected deficit of \$140 million. The fiscal year 2020-21 budget has a projected 2019-20 fund balance of \$140.6 million. The budgeted fund balance for fiscal year 2020-21 is approximately \$300,000. For SDP enrollment information, see APPENDIX A – "GENERAL INFORMATION REGARDING THE CO-BORROWERS, THE SCHOOL AND THE PROJECT – THE SCHOOL – Competitor Schools."

State Takeover of the School District of Philadelphia

The SDP was declared "financially distressed" on December 22, 2001 under Act 83 of 2001 (the "Amended State Takeover Law") following negotiations between the Mayor of the City and the Governor of the Commonwealth. Pursuant to the Amended State Takeover Law, and following the declaration of distress by the Secretary of Education, the five-member School Reform Commission ("SRC") was established on March 14, 2002 to govern the SDP in place of the Board of Education. At that time, the powers of the Board of Education were suspended and the SRC assumed governance of the SDP. Under the Charter School Law, approval of charters as well as revocations and renewals are made by the authorizing school district, a power the SRC assumed under the declaration of distress.

On November 16, 2017, the SRC adopted a resolution recommending that the Secretary of Education issue a declaration that would dissolve the SRC and rescind the declaration of distress. On December 26, 2017, the Secretary of Education approved the dissolution of the SRC and rescinded the SDP's declaration of distressed school district status, effective June 30, 2018. The mayor of Philadelphia subsequently appointed a nominating panel to nominate individuals to serve as members of the Board of Education, and on April 4, 2018, nine members of the Board of Education were appointed by the Mayor. The Board of Education assumed governance of the SDP on July 1, 2018.

Pursuant to the Amended State Takeover Law, the SRC had assumed the authority to renew, suspend or revoke charters as set forth in "RISK FACTORS – Non Renewal or Revocation of Charter" in the forepart of this Limited Offering Memorandum. Under Act No. 131 of 2014 of the Pennsylvania General Assembly, a decision by the SRC to deny a charter school application may be appealed to the Charter School Appeal Board (See SUMMARY OF CERTAIN PROVISIONS OF PENNSYLVANIA CHARTER SCHOOL LAW – Establishment of Charter School" herein.

SDP is not required to accept new charter school applications. A charter school must notify, in writing, the SDP between July 1 and October 1 of the final year of its current charter, that it is requesting renewal of the charter.

Current Financial Situation of the School District of Philadelphia

In 2011, the Commonwealth was facing a budget deficit of about \$4 billion, due in part to consequences of the recession. The final 2011 budget for the Commonwealth cut approximately \$961 million from education, with roughly one-third of those cuts falling on SDP alone. At that time, SDP operated in a deficit mode, closing 24 schools, eliminating music and art programs, laying off thousands of teachers, nurses, counsels and staff, and making substantial central office staffing cuts. In March of 2016, SDP adopted a plan assuming \$440 million worth of new investments over five years. The long-term plan was contingent, however, on certain assumptions including the next state budget cycle and charter school enrollment growth. The five-year-plan projected SDP's operating budget to increase from an estimated \$2.715 billion in fiscal year 2018 to a projected \$2.967 billion in fiscal year 2021. Charter school expenditures were projected to increase by \$222 million between fiscal years 2017 and 2018. SDP ended the 2016 fiscal year with a positive operating fund balance of \$131.2 million; the 2017 fiscal year with a \$124.7 million positive fund balance; the 2018 fiscal year with a positive fund balance of \$169.5 million; the 2019 fiscal year with a positive fund balance of \$222.6 million; and is projected to have a positive ending fund balance of \$153.7 million in fiscal year 2019, which would make five consecutive years of positive ending fund balances. See "RISK FACTORS – Changes in Law; Annual Appropriation; Inadequate School District Payments." Since 2014, the SDP has added more than 1,700 teacher and support staff positions, has created a teacher residency program and has brought back music and art programs.

On March 29, 2019, SDP adopted an operating budget of \$3.36 billion for fiscal year 2020 and made fiscal year 2020 the first year of a new five year financial plan. The five year financial plan projects positive year-end fund balances through 2021, but it also projects operating deficits in fiscal years 2020-24 and negative year-end balances in fiscal years 2022-24. Budgetary problems at the School District may affect the funding for the Borrowers and the Corporation. See "RISK FACTORS – Changes in Law; Annual Appropriation; Inadequate School District Payments" in the forepart of this Limited Offering Memorandum.

COMMONWEALTH BUDGET

Commonwealth Budget

The adopted budget of the Commonwealth for fiscal year ending June 30, 2020 provided for \$33.9 billion and provided for a \$160 million increase for basic education funding and a \$50 million increase for special education funding. On May 15, 2020, Governor Wolf released his 2020-21 State budget plan, which included a projected savings of \$280 million gained from proposed charter school funding reductions.

On May 29, 2020, Governor Wolf approved a budget that holds all major education spending at 2019-20 levels, but the full budget will be revisited in November 2020 to address the effects of the COVID-19 pandemic. In lieu of a complete budget for fiscal year 2020-2021, the Commonwealth adopted an interim budget for the period to end October 31, 2020. Such interim 2020-2021 state budget provides for appropriations and spending in the amount of \$26 billion, but includes the full year appropriation for public education, including a \$200 million increase for basic education funding and a \$20 million increase for special education funding.

Notwithstanding the above, there can be no guarantee that the Commonwealth will timely pass its full annual budget for fiscal year 2020-2021 or for any subsequent fiscal year. The Commonwealth has previously also failed to timely pass its full annual budget.

In the event that the Commonwealth's full budget is not passed in any fiscal, or such budget does not include adequate funding for the public education, the SDP (and other School Districts) may have limited funds available to make payments to the School and other charter schools. Funds may also not be available under the intercept provision of the Charter School Law if the SDP or the School Districts fail to make payments directly to the School or other charter schools. There can be no assurance of any further action by the Governor or the Pennsylvania General Assembly with respect to future Commonwealth Operating Budgets, the timing or amount of payments of Commonwealth appropriations for state aid to the SDP or other School Districts, or the availability of funds under the intercept provisions in the Charter School Law.

Financial pressure on the Commonwealth may also lead to reductions in spending on public schools in the future, including charter schools. There can be no assurance that current levels of per pupil spending for public schools in the Commonwealth, including charter schools, will be maintained in future years.

Budget Process

The Pennsylvania Constitution requires the Governor to annually submit to the General Assembly a balanced operating budget for the ensuing fiscal year setting forth in detail (i) proposed expenditures classified by department or agency and by program and (ii) estimated revenues from all sources. The Governor submits the executive budget to a joint session of the General Assembly through his budget address no later than the first full week of February.

Upon receiving the Governor's proposed budget, the appropriations committees of the House and Senate hold hearings to review agency requests for funds. After the hearings, the General Assembly will pass a general appropriations bill and individual appropriation bills, which will contain appropriations for the executive, legislative and judicial departments, public schools and public debt.

After the appropriations bills are passed by the General Assembly, the Governor has the authority to either veto the appropriations bills or to reduce the amount of appropriations in order to produce a budget that is in balance with revenues. The Governor also has the power to reduce or line-item veto any appropriation that he considers excessive or unnecessary. The Governor may veto an entire bill by returning the bill with objections to the General Assembly within ten days. The bill will not become law unless the General Assembly overrides the veto by a two-thirds vote. The School would be materially harmed by any budget failure which delays or otherwise adversely affects appropriations for charter school funding.

Future Budgets

None of the Authority, the Borrowers, or the Corporation can predict what actions will be taken in the future by the Governor and the General Assembly to address changing Commonwealth revenues and expenditures or the impact such actions will have on Commonwealth revenues available in the current or future years for education. The Commonwealth budget will be affected by national and Commonwealth economic conditions and other factors beyond the control of the Authority, the Borrowers, or the Corporation. These actions could result in a decrease in revenue, and certain actions could result in a significant shortfall of revenue and cash, each of which could impair the Commonwealth's ability to fund schools during future fiscal years. In addition, future budget impasses may affect payments under those withholding provisions. No assurances can be made by the Borrowers or the Corporation with respect to the timing or amount of payments of Commonwealth appropriations for state aid to the School District.

SUMMARY OF CERTAIN PROVISIONS OF PENNSYLVANIA CHARTER SCHOOL LAW

INTRODUCTION

This portion of Appendix D summarizes certain provisions of laws applicable to charter schools in the Commonwealth of Pennsylvania (the "Commonwealth"). This portion of Appendix D provides only a summary of certain charter school laws and is for information purposes only; reference should be made to such provisions in their entirety for a complete understanding of their terms. Further, the provisions summarized below are subject to change by the Commonwealth's General Assembly, and this summary only pertains to certain aspects of currently existing law.

Various statutory provisions govern the creation, operation, and financing of charter schools in the Commonwealth. These provisions, which are described further below, generally derive from the Charter School Law, 24 P.S. §§ 17-1701-A, *et seq.* (the "Charter School Law"), which includes, among other things, provisions governing the legal status and organization of charter schools, their relationship to their chartering entities, laws applicable to charter schools and related exemptions, charter school enrollment, payments to charter schools, the charter application process, charter terms and renewals, and grounds for revocation or nonrenewal and the appeal process.

CHARTER SCHOOL (24 P.S. § 17-1703-A)

"Charter school" is defined in the Charter School Law as an independent public school established and operated under a charter from the local board of school directors and in which students are enrolled or attend. A charter school must be organized as a public, nonprofit corporation. Charters may not be granted to any for-profit entity.

LEGISLATIVE INTENT (24 P.S. § 17-1702-A)

The intent of the General Assembly in enacting the Charter School Law was to provide opportunities for teachers, parents, pupils, and community members to establish and maintain schools that operate independently from the existing school district structure as a method to accomplish all of the following:

- To improve pupil learning.
- To increase learning opportunities for all pupils.
- To encourage the use of different and innovative teaching methods.
- To create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site.
- To provide parents and pupils with expanded choices in the types of educational opportunities that are available within the public school system.

- To hold charter schools accountable for meeting measurable academic standards and provide them with a method to establish accountability systems.

POWERS OF CHARTER SCHOOLS (24 P.S. § 17-1714-A)

A charter school is a body corporate and shall have all powers necessary or desirable for carrying out its charter, including, but not limited to, the power to: (1) adopt a name and corporate seal; however, any name selected shall include the words "charter school;" (2) sue and be sued, but only to the same extent and upon the same condition that political subdivisions and local agencies can be sued; (3) acquire real property from public or private sources by purchase, lease, lease with an option to purchase or gift for use as a charter school facility; (4) receive and disburse funds for charter school purposes only; (5) make contracts and leases for the procurement of services, equipment and supplies; (6) incur temporary debts in anticipation of the receipt of funds; (6.1) incur debt for the construction of school facilities; (7) solicit and accept any gifts or grants for charter school purposes. A charter school shall have such other powers as are necessary to fulfill its charter and which are not inconsistent with the Charter School Law. Any indebtedness incurred by a charter school in the exercise of the powers specified in this section shall not impose any liability or legal obligation upon a school entity or upon the Commonwealth.

CHARTER SCHOOL REQUIREMENTS (24 P.S. § 17-1715-A)

Charter schools are required to comply with the following provisions:

(1) Except as otherwise provided in the Charter School Law, a charter school is exempt from statutory requirements established in the Pennsylvania Public School Code of 1949, as amended (the "School Code"), from regulations of the State Board of Education of the Commonwealth and the standards of the Secretary of Education of the Commonwealth (the "Secretary") not specifically applicable to charter schools. Charter schools are not exempt from statutes applicable to public schools other than the School Code.

(2) A charter school shall be accountable to the parents, the public, and the Commonwealth, with the delineation of that accountability reflected in the charter. Strategies for meaningful parent and community involvement shall be developed and implemented by each school.

(3) A charter school shall not unlawfully discriminate in admissions, hiring, or operation.

(4) A charter school shall be nonsectarian in all operations.

(5) A charter school shall not provide any religious instruction, nor shall it display religious objects and symbols on the premises of the charter school.

(6) A charter school shall not advocate unlawful behavior.

(7) A charter school shall only be subject to the laws and regulations as provided for in 24 P.S. § 17-1732-A or as otherwise provided for in the Charter School Law.

(8) A charter school shall participate in the Pennsylvania State Assessment System, as provided for in 22 Pa. Code Ch. 5 (relating to curriculum), or subsequent regulations promulgated to replace 22 Pa. Code Ch. 5, in the manner in which the school district in which the charter school is located is scheduled to participate.

(9) A charter school shall provide a minimum of one hundred eighty (180) days of instruction or nine hundred (900) hours per year of instruction at the elementary level, or nine hundred ninety (990) hours per year of instruction at the secondary level. Nothing in this clause shall preclude the use of computer and satellite linkages for delivering instruction to students.

(10) Boards of trustees and contractors of charter schools shall be subject to the following statutory requirements governing construction projects and construction related work: (i) work on school buildings or school property to be done under contract let on bids; (ii) prohibition on architects and engineers employed by school district

from bidding on public works; (iii) contractors to be bonded; (iv) separate bidding of contracts for plumbing, heating, ventilating, and electrical work; (v) the Pennsylvania Prevailing Wage Act; (vi) the Public Works Contractors' Bond Law of 1967; and (vii) the Steel Products Procurement Act.

(11) Trustees of a charter school shall be public officials.

(12) A person who serves as an administrator for a charter school shall not receive compensation from another charter school or from a company that provides management or other services to another charter school. The term "administrator" shall include the chief executive officer of a charter school and all other employees of a charter school who by virtue of their positions exercise management or operational oversight responsibilities. A person who serves as an administrator for a charter school shall be a public official under 65 Pa. C.S. Ch. 11 (relating to ethics standards and financial disclosure). A violation of this clause shall constitute a violation of 65 Pa. C.S. § 1103(a) (relating to restricted activities), and the violator shall be subject to the penalties imposed under the jurisdiction of the Commonwealth Ethics Commission.

POWERS OF BOARD OF TRUSTEES (24 P.S. § 17-1716-A)

The board of trustees of a charter school shall have the authority to decide matters related to the operation of the school, including, but not limited to, budgeting, curriculum and operating procedures, subject to the school's charter. The board shall have the authority to employ, discharge, and contract with necessary professional and nonprofessional employees subject to the school's charter and the provisions of the Charter School Law. No member of a local board of school directors of a school entity shall serve on the board of trustees of a charter school that is located in the member's district. The board of trustees shall comply with the act of July 3, 1986 (P.L. 388, No. 84) (the "Sunshine Act").

ESTABLISHMENT OF CHARTER SCHOOL (24 P.S. § 17-1717-A)

(a) A charter school may be established by an individual; one or more teachers who will teach at the proposed charter school; parents or guardians of students who will attend the charter school; any nonsectarian college, university or museum located in the Commonwealth; any nonsectarian corporation not-for-profit; as defined in 15 PA.C.S. (relating to corporations and unincorporated associations); any corporation, association, partnership; or any combination thereof. A charter school may be established by creating a new school or by converting an existing public school or a portion of an existing public school. No charter school shall be established or funded by and no charter shall be granted to any sectarian school, institution or other entity. No funds allocated or disbursed under the Charter School Law shall be used to directly support instruction pursuant to a home education program.

(b) The conversion of an existing public school or portion of an existing public school to a charter school may be initiated by any individual or entity authorized to establish a charter school under paragraph (a) of this section. In order to convert an existing public school to a charter school, the applicants must show that: (i) more than 50% of the teaching staff in the public school have signed a petition in support of the public school becoming a charter school; and (ii) more than fifty per centum of the parents or guardians of pupils attending that public school have signed a petition in support of the school becoming a charter school. In no event shall the board of school directors serve as the board of trustees of an existing school which is converted to a charter school pursuant to this paragraph.

(c) An application to establish a charter school shall be submitted to the local board of school directors of the district where the charter school will be located by November 15 of the school year preceding the school year in which the charter school will be established.

(d) Within forty-five (45) days of receipt of an application, the local board of school directors in which the proposed charter school is to be located shall hold at least one public hearing on the provisions of the charter application, under the Sunshine Act. At least forty-five (45) days must transpire between the first public hearing and the final decision of the board on the charter application.

(e) (1) Not later than seventy-five (75) days after the first public hearing on the application, the local board of school directors shall grant or deny the application.

(2) A charter school application submitted under the Charter School Law shall be evaluated by the local board of school directors based on criteria including, but not limited to, the following: (i) the demonstrated, sustainable support for the charter school plan by teachers, parents, other community members and students, including comments received at the public hearing held under paragraph (d) of this section; (ii) the capability of the charter school applicant, in terms of support and planning, to provide comprehensive learning experiences to students pursuant to the adopted charter; (iii) the extent to which the application considers the information requested in 24 P.S. § 17-1719-A and conforms to the legislative intent outlined in 24 P.S. § 17-1702-A; and (iv) the extent to which the charter school may serve as a model for other public schools.

(3) The local board of school directors, in the case of an existing school being converted to a charter school, shall establish the alternative arrangements for current students who choose not to attend the charter school.

(4) A charter application shall be deemed approved by the local board of school directors of a school district upon affirmative vote by a majority of all the directors. Formal action approving or denying the application shall be taken by the local board of school directors at a public meeting, with notice or consideration of the application given by the board, under the Sunshine Act.

(5) Written notice of the board's action shall be sent to the applicant, the PDE and the Charter School Appeal Board. If the application is denied, the reasons for the denial, including a description of deficiencies in the application, shall be clearly stated in the notice sent by the local board of school directors to the charter school applicant.

(f) At the option of the charter school applicant, a denied application may be revised and resubmitted to the local board of school directors. Following the appointment and confirmation of the Charter School Appeal Board under 24 P.S. § 17-1721-A, the decision of the local board of school directors may be appealed to the Charter School Appeal Board. When an application is revised and resubmitted to the local board of school directors, the board may schedule additional public hearings on the revised application. The board shall consider the revised and resubmitted application at the first board meeting occurring at least forty-five (45) days after receipt of the revised application by the board. The board shall provide notice of consideration of the revised application under the Sunshine Act.

(g) Notwithstanding the provisions of clause (5) of paragraph (e) of this section, failure by the local board of directors to hold a public hearing and to grant or deny the application for a charter school within the time periods specified in paragraphs (d), (e) and (f) of this section shall permit the applicant for a charter to file its application as an appeal to the Charter School Appeal Board. In such case, the Charter School Appeal Board shall review the application and make a decision to grant or deny a charter based on the criteria established in clause (2) of paragraph (e) of this section.

(h) In the case of a review by the Charter School Appeal Board of an application that is revoked or is not renewed the Charter School Appeal Board shall make its decision based on the criteria established in clause (2) of paragraph (e) of this section. A decision by the Charter School Appeal Board under this paragraph or paragraph (g) of this section to grant, to renew or not to revoke a charter shall serve as a requirement for the local board of directors of a school district or school districts, as appropriate, to sign the written charter of the charter school. Should the local board of directors fail to grant the application and sign the charter within ten (10) days of notice of reversal of the decision of the local board of directors, the charter shall be deemed to be approved and shall be signed by the chairman of the Charter School Appeal Board (as defined in the statute).

(i) (1) The Charter School Appeal Board shall have the exclusive review of an appeal by a charter school applicant, or by the board of trustees of an existing charter school, of a decision made by a local board of directors not to grant a charter as provided in this section.

(2) In order for a charter school applicant to be eligible to appeal the denial of a charter by the local board of directors, the applicant must obtain the signatures of at least two per centum of the residents of the school district or of one thousand (1,000) residents, whichever is less, who are over eighteen (18) years of age. For a regional charter school, the applicant must obtain the signatures of at least two per centum of the residents of each

school district granting the charter or of one thousand (1,000) residents from each of the school districts granting the charter, whichever is less, who are over eighteen (18) years of age. The signatures shall be obtained within sixty (60) days of the denial of the application by the local board of directors in accordance with clause (3) below.

(3) Each person signing a petition to appeal denial of a charter under clause (2) above shall declare that he or she is a resident of the school district which denied the charter application and shall include his or her printed name; signature; address, including city, borough or township, with street and number, if any; and the date of signing. All pages shall be bound together. Additional pages of the petition shall be numbered consecutively. There shall be appended to the petition a statement that the local board of directors rejected the petition for a charter school, the names of all applicants for the charter, the date of denial by the board and the proposed location of the charter school. No resident may sign more than one petition relating to the charter school application within the sixty (60) days following denial of the application. The department shall develop a form to be used to petition for an appeal.

(4) Each petition shall have appended thereto the affidavit of some person, not necessarily a signer, setting forth all of the following:

- (i) That the affiant is a resident of the school district referred to in the petition.
- (ii) The affiant's residence, giving city, borough, or township, with street and number,
if any.
- (iii) That the signers signed with full knowledge of the purpose of the petition.
- (iv) That the signers' respective residences are correctly stated in the petition.
- (v) That the signers all reside in the school district.
- (vi) That each signer signed on the date set forth opposite the signer's name.
- (vii) That to the best of the affiant's knowledge and belief, the signers are residents of
the school district.

(5) If the required number of signatures are obtained within sixty (60) days of the denial of the application, the applicant may present the petition to the court of common pleas of the county in which the charter school would be situated. The court shall hold a hearing only on the sufficiency of the petition. The applicant and local board of school directors shall be given seven (7) days' notice of the hearing. The court shall issue a decree establishing the sufficiency or insufficiency of the petition. If the petition is sufficient, the decree shall be transmitted to the Charter School Appeal Board for review in accordance with this section. Notification of the decree shall be given to the applicant and the local board of directors.

(6) In any appeal, the decision made by the local board of directors shall be reviewed by the Charter School Appeal Board on the record as certified by the local board of directors. The Charter School Appeal Board shall give due consideration to the findings of the local board of directors and specifically articulate its reasons for agreeing or disagreeing with those findings in its written decision. The Charter School Appeal Board shall have the discretion to allow the local board of directors and the charter school applicant to supplement the record if the supplemental information was previously unavailable.

(7) Not later than thirty (30) days after the date of notice of the acceptance of the appeal, the Charter School Appeal Board shall meet to officially review the certified record.

(8) Not later than sixty (60) days following the review conducted pursuant to clause (6) above, the Charter School Appeal Board shall issue a written decision affirming or denying the appeal. If the Charter School Appeal Board has affirmed the decision of the local board of directors, notice shall be provided to both parties.

(9) A decision of the Charter School Appeal Board to reverse the decision of the local board of directors shall serve as a requirement for the local board of directors of a school district or school districts, as appropriate, to grant the application and sign the written charter of the charter school as provided for in section 1720-A. Should the local board of directors fail to grant the application and sign the charter within ten (10) days of notice of the reversal of the decision of the local board of directors, the charter shall be deemed to be approved and shall be signed by the chairman of the Charter School Appeal Board.

(10) All decisions of the Charter School Appeal Board shall be subject to appellate review by the Commonwealth Court.

REGIONAL CHARTER SCHOOL (24 P.S. § 17-1718-A)

(a) A regional charter school may be established by an individual, one or more teachers who will teach at the proposed charter school; parents or guardians of students who will attend the charter school; any nonsectarian college, university or museum located in this Commonwealth; any nonsectarian corporation not-for-profit as defined in 15 Pa. C.S. (relating to corporations and unincorporated associations); any corporation, association, or partnership; or any combination thereof. A regional charter school may be established by creating a new school or by converting an existing public school or a portion of an existing public school. Conversion of an existing public school to a regional charter school shall be accomplished in accordance with 24 P.S. § 17-1714-A(b). No regional charter school shall be established or funded by and no charter shall be granted to any sectarian school, institution or other entity.

(b) The boards of school directors of one or more school districts may act jointly to receive and consider an application for a regional charter school, except that any action to approve an application for a charter or to sign a written charter of an applicant shall require an affirmative vote of a majority of all the directors of each of the school districts involved. The applicant shall apply for a charter to the board of directors of any school district in which the charter school will be located.

(c) The provisions of the Charter School Law as they pertain to charter schools and the powers and duties of the local board of school directors of a school district and the Charter School Appeal Board shall apply to regional charter schools, except as provided in paragraphs (a) and (b) of this section or as otherwise clearly stated in the Charter School Law.

CONTENTS OF APPLICATION (24 P.S. § 17-1719-A)

An application to establish a charter school shall include all of the following information:

- (1) The identification of the charter applicant.
- (2) The name of the proposed charter school.
- (3) The grade or age levels served by the school.
- (4) The proposed governance structure of the charter school, including a description and method for the appointment or election of members of the board of trustees.
- (5) The mission and education goals of the charter school, the curriculum to be offered and the methods of assessing whether students are meeting educational goals.
- (6) The admission policy and criteria for evaluating the admission of students which shall comply with the requirements of 17-1723-A.
- (7) Procedures which will be used regarding the suspension or expulsion of pupils. Said procedures shall comply with 24 P.S. § 13-1318.

(8) Information on the manner in which community groups will be involved in the charter school planning process.

(9) The financial plan for the charter school and the provisions which will be made for auditing the school under 24 P.S. § 4-437.

(10) Procedures which shall be established to review complaints of parents regarding the operation of the charter school.

(11) A description of and address of the physical facility in which the charter school will be located and the ownership thereof and any lease arrangements.

(12) Information on the proposed school calendar for the charter school, including the length of the school day and school year consistent with the provisions of 24 P.S. § 15-1502.

(13) The proposed faculty and a professional development plan for the faculty of a charter school.

(14) Whether any agreements have been entered into or plans developed with the local school district regarding participation of the charter school students in extracurricular activities within the school district. Notwithstanding any provision to the contrary, no school district of residence shall prohibit a student of a charter school from participating in any extracurricular activity of that school district of residence: Provided, that the student is able to fulfill all of the requirements of participation in such activity and the charter school does not provide the same extracurricular activity.

(15) A report of criminal history record, pursuant to 24 P.S. § 1-111, for all individuals who shall have direct contact with students.

(16) An official clearance statement regarding child injury or abuse from the Department of Public Welfare, as required by 24 P.S. § 23 Pa.C.S. Ch. 63 Subch. C.2, (relating to background checks for employment in schools) for all individuals who shall have direct contact with students.

(17) How the charter school will provide adequate liability and other appropriate insurance for the charter school, its employees and the board of trustees of the charter school.

TERM AND FORM OF CHARTER (24 P.S. § 17-1720-A)

(a) Upon approval of a charter application under 24 P.S. § 17-1717-A, a written charter shall be developed which shall contain the provisions of the charter application and which shall be signed by the local board of school directors of a school district, by the local boards of school directors of a school district in the case of a regional charter school or by the chairman of the Charter School Appeal Board pursuant to 24 P.S. § 17-1717-A(i)(5) and the board of trustees of the charter school. This written charter, when duly signed by the local board of school directors of a school district, or by the local boards of school directors of a school district in the case of a regional charter school, and the charter school's board of trustees, shall act as legal authorization for the establishment of a charter school. This written charter shall be legally binding on both the local board of school directors of a school district and the charter school's board of trustees. Except as otherwise provided in paragraph (b) of this section, the charter shall be for a period of no less than three (3) nor more than five (5) years and may be renewed for five (5) year periods upon reauthorization by the local board of school directors of a school district or the Charter School Appeal Board. A charter will be granted only for a school organized as a public, nonprofit corporation.

(b) Notwithstanding paragraph (a) of this section, a governing board of a school district of the first class may renew a charter for a period of one (1) year if the board of school directors determines that there is insufficient data concerning the charter school's academic performance to adequately assess that performance and determines that an additional year of performance data would yield sufficient data to assist the governing board in its decision whether to renew the charter for a period of five (5) years. A one-year renewal shall not be considered an adjudication and may

not be appealed to the Charter School Appeal Board. A governing board of a school district of the first class does not have the authority to renew a charter for successive one (1) year periods.

CHARTER SCHOOL APPEAL BOARD (24 P.S. § 17-1721-A)

(a) The Charter School Appeal Board shall consist of the Secretary of Education and six (6) members who shall be appointed by the Governor by and with the consent of a majority of all the members of the Senate. Appointments by the Governor shall not occur prior to January 1, 1999. The Governor shall select the chairman of the appeal board to serve at the pleasure of the Governor. The members shall include: (1) a parent of a school-aged child; (2) a school board member; (3) a certified teacher actively employed in a public school; (4) a faculty member or administrative employee of an institution of higher education; (5) a member of the business community; and (6) a member of the Pennsylvania Board of Education.

(b) The term of office of members of the Charter School Appeal Board, other than the Secretary, shall be for a period of four (4) years or until a successor is appointed and qualified, except that, of the initial appointees, the Governor shall designate two (2) members to serve terms of two (2) years, two (2) members to serve terms of three (3) years and two (2) members to serve terms of four (4) years. Any appointment to fill any vacancy shall be for the period of the unexpired term or until a successor is appointed and qualified.

(c) The Charter School Appeal Board shall meet as needed to fulfill the purposes provided in this subsection. A majority of the members of the Charter School Appeal Board shall constitute a quorum, and a majority of the members of the Charter School Appeal Board shall have authority to act upon any matter properly before the Charter School Appeal Board. The Charter School Appeal Board is authorized to establish rules for its operation.

(d) The members shall receive no payment for their services. Members who are not employees of Commonwealth government shall be reimbursed for expenses incurred in the course of their official duties from funds appropriated for the general government operations of the PDE.

(e) The PDE shall provide assistance and staffing for the Charter School Appeal Board. The Governor, through the Governor's General Counsel, shall provide such legal advice and assistance as the appeal board may require.

(f) Meetings of the appeal board shall be conducted under the Sunshine Act and documents of the Charter School Appeal Board shall be subject to the Commonwealth's Right-to-Know Law.

FACILITIES (24 P.S. § 17-1722-A)

(a) A charter school may be located in an existing public school building, in a part of an existing public school building, in space provided on a privately owned site, in a public building or in any other suitable location.

(b) The charter school facility shall be exempt from public school facility regulations except those pertaining to the health or safety of the pupils.

(c) (Repealed.)

(d) Notwithstanding any other provision of this act, a school district of the first class may, in its discretion, permit a charter school to operate its school at more than one location.

(e) (1) Notwithstanding the provisions of the General County Assessment Law, 72 P.S. § 5020-204, all school property, real and personal, owned by any charter school, cyber charter school or an associated nonprofit foundation, or owned by a nonprofit corporation or nonprofit foundation and leased to a charter school, cyber charter school or associated nonprofit foundation at or below fair market value, that is occupied and used by any charter school or cyber charter school for public school, recreation or any other purposes provided for by this act, shall be made exempt from every kind of Commonwealth, county, city, borough, township or other real estate tax,

including payments in lieu of taxes established through agreement with the Commonwealth or any local taxing authority, as well as from all costs or expenses for paving, curbing, sidewalks, sewers or other municipal improvements, Provided, That any charter school or cyber charter school or owner of property leased to a charter school or cyber charter school may make a municipal improvement in a street on which its school property abuts or may contribute a sum toward the cost of the improvement.

(2) Any agreement entered into by a charter school, cyber charter school or associated nonprofit foundation with the Commonwealth or a local taxing authority for payments in lieu of taxes prior to December 31, 2009, shall be null and void.

(3) This subsection shall apply retroactively to all charter schools, cyber charter schools and associated nonprofit foundations that filed an appeal from an assessment, as provided in Article V of The General County Assessment Law of the Commonwealth, prior to the effective date of this subsection.

(4) For purposes of this subsection, "local taxing authority" shall include, but not be limited to, a county, city, borough, incorporated town, township, or school district.

ENROLLMENT (24 P.S. § 17-1723-A)

(a) All resident children in this Commonwealth qualify for admission to a charter school within the provisions of paragraph (b) of this section. If more students apply to the charter school than the number of attendance slots available in the school, then students must be selected on a random basis from a pool of qualified applicants meeting the established eligibility criteria and submitting an application by the deadline established by the charter school, except that the charter school may give preference in enrollment to a child of a parent who has actively participated in the development of the charter school and to siblings of students presently enrolled in the charter school. First preference shall be given to students who reside in the district or districts.

(b) (1) A charter school shall not discriminate in its admission policies or practices on the basis of intellectual ability, except as provided in clause (2) below, or athletic ability, measures of achievement or aptitude, status as a person with a disability, proficiency in the English language or any other basis that would be illegal if used by a school district.

(2) A charter school may limit admission to a particular grade level, a targeted population group composed of at-risk students, or areas of concentration of the school such as mathematics, science or the arts. A charter school may establish reasonable criteria to evaluate prospective students which shall be outlined in the school's charter.

(c) If available classroom space permits, a charter school may enroll nonresident students on a space-available basis, and the student's district of residence shall permit the student to attend the charter school.

(d) Enrollment of students in a charter school or cyber charter school shall not be subject to a cap or otherwise limited by any past or future action of a board of school directors, a board of control established under 24 P.S. § 17-1701-B, et seq., a special board of control established under 24 P.S. § 6-692 or any other governing authority, unless agreed to by the charter school or cyber charter school as part of a written charter pursuant to 24 P.S. § 17-1720-A. The provisions of this paragraph shall apply to a charter school or cyber charter school regardless of whether the charter was approved prior to or is approved subsequent to the effective date of this paragraph.

SCHOOL STAFF (24 P.S. § 17-1724-A)

(a) The board of trustees shall determine the level of compensation and all terms and conditions of employment of the staff except as may otherwise be provided in the Charter School Law. At least seventy-five per centum of the professional staff members of a charter school shall hold appropriate Commonwealth certification. Employees of a charter school may organize under the Pennsylvania Public Employee Relations Act. The board of trustees of a charter school shall be considered an employer for purposes of 24 P.S. § 11-1101-A et seq. Upon formation of one or more collective bargaining units at the school, the board of trustees shall bargain with the

employees based on the provisions of the Charter School Law, Article XI-A and the Pennsylvania Public Employee Relations Act. Collective bargaining units at a charter school shall be separate from any collective bargaining unit of the school district in which the charter school is located and shall be separate from any other collective bargaining unit. A charter school shall be considered a school entity as provided for in 24 P.S. § 11-1161-A for the purpose of the Secretary seeking an injunction requiring the charter school to meet the minimum requirements for instruction as provided for in the Charter School Law.

(b) Each charter application shall list the general qualifications needed to staff any noncertified positions. Professional employees who do not hold appropriate Pennsylvania certification must present evidence that they: meet the qualifications in the applicable provisions of the School Code 24 P.S. §§11-1109 and 12-1209; and have demonstrated satisfactorily a combination of experience, achievement and qualifications as defined in the charter school application in basic skills, general knowledge, professional knowledge and practice and subject matter knowledge in the subject area where an individual will teach.

(c) All employees of a charter school shall be enrolled in the Public School Employees' Retirement System in the same manner as set forth in 24 Pa.C.S. § 8301(a) (relating to mandatory and optional membership) unless at the time of the application for the charter school the sponsoring district or the board of trustees of the charter school has a retirement program which covers the employees or the employee is currently enrolled in another retirement program. The charter school shall be considered a public school as defined in 24 Pa.C.S. § 8102 (relating to definitions) and shall make quarterly payments by employers to the Public School Employees' Retirement System and monthly payments on account of Social Security as established under 24 Pa.C.S. Pt. IV. 24 Pa. C.S.A. § 8101 et seq. (relating to retirement for school employees). Except as otherwise provided, employees of a charter school shall make regular member contributions as required for active members under 24 Pa.C.S. Pt. IV. If the employees of the charter school participate in another retirement plan, then those employees shall have no concurrent claim on the benefits provided to public school employees under 24 Pa.C.S. Pt. IV. Notwithstanding any other provision of law to the contrary, nothing in the Charter School Law shall be construed to require the Commonwealth to make payments to charter schools or contributions on behalf of charter school employees from appropriated funds, as provided in 24 Pa. C.S. §§ 8326 (relating to contributions by the Commonwealth) and 8535 (relating to payments to school entities by the Commonwealth) on account of charter school employees enrolled in the Public School Employees' Retirement System and 24 Pa. C.S. § 8329(a) (relating to payments on account of social security deductions from appropriations) on account of Social Security payments made by a charter school.

(d) Every employee of a charter school shall be provided the same health care benefits as the employee would be provided if he or she were an employee of the local district. The local board of school directors may require the charter school to provide the same terms and conditions with regard to health insurance as the collective bargaining agreement of the school district to include employee contributions to the district's health benefits plan. The charter school shall make any required employer's contribution to the district's health plan to an insurer, a local board of school directors or a contractual representative of school employees, whichever is appropriate to provide the required coverage.

(e) Any public school employee of a school entity may request a leave of absence for up to five (5) years in order to work in a charter school located in the district of employment or in a regional charter school in which the employing school district is a participant. Approval for a leave shall not be unreasonably withheld.

(f) Temporary professional employees on leave from a school district may accrue tenure in the non-charter public school system at the discretion of the local board of school directors, the same as they would under 24 P.S. § 11-1101 *et seq.* if they had continued to be employed by that district. Professional employees on leave from a school district shall retain their tenure rights, as defined in 24 P.S. § 11-1101 *et seq.*, in the school entity from which they came. No temporary professional employee or professional employee shall have tenure rights as against a charter school. Both temporary professional employees and professional employees shall continue to accrue seniority in the school entity from which they came if they return to that school entity when the leave ends.

(g) Professional employees who hold a first level teaching or administrative certificate may, at their option, have the time completed in satisfactory service in a charter school applied to the length of service requirements for the next level of certification.

(h) (1) Any temporary professional employee or professional employee who leaves employment at a charter school shall have the right to return to a comparable position for which the person is properly certified in the school entity which granted the leave of absence. In the case where a teacher has been dismissed by the charter school, the school entity which granted the leave of absence is to be provided by the charter school with the reasons for such dismissal at the time it occurs, a list of any witnesses who were relied on by the charter school in moving for dismissal, a description of and access to any physical evidence used by the charter school in moving for dismissal and a copy of any record developed at any dismissal proceeding conducted by the charter school. The record of any such hearing may be admissible in a hearing before the school entity which granted the leave of absence. Nothing in this paragraph shall affect the authority of the board of school directors to initiate proceedings under Article XI if the board determines that occurrences at the charter school leading to dismissal of a teacher constitute adequate and independent grounds for discipline under section 1122.

(2) No temporary employee or professional employee who is leaving employment at a charter school shall be returned to a position in the public school district which granted his leave of absence, until such public school district is in receipt of a current criminal history record under section 111 and the official clearance statement regarding child injury or abuse from the Department of Human Services as required by 23 Pa.C.S. Ch. 63 Subch. C.2 (relating to background checks for employment in schools).

(i) All individuals who shall have direct contact with students shall be required to submit a report of criminal history record information as provided for in section 111 prior to accepting a position with the charter school. This subsection shall also apply to any individual who volunteers to work on a full-time or part-time basis at the charter school.

(j) All applicants for a position as a school employee shall be required to submit the official clearance statement regarding child injury or abuse from the Department of Human Services as required by 23 Pa.C.S. Ch. 63 Subch. C.2. This section shall also apply to any individual who volunteers to work on a full-time or part-time basis at a charter school.

FUNDING FOR CHARTER SCHOOLS (24 P.S. § 17-1725-A)

(a) Funding for a charter school shall be provided in the following manner:

(1) There shall be no tuition charge for a resident or nonresident student attending a charter school.

(2) For non-special education students, the charter school shall receive for each student enrolled no less than the budgeted total expenditure per average daily membership of the prior school year as defined in 24 P.S. § 25-2501(20), minus the budgeted expenditures of the district of residence for nonpublic school programs; adult education programs; community/junior college programs; student transportation services; for special education programs; facilities acquisition, construction and improvement services; and other financing uses, including debt service and fund transfers as provided in the Manual of Accounting and Related Financial Procedures for Pennsylvania School Systems established by the PDE. This amount shall be paid by the district of residence of each student.

(3) For special education students, the charter school shall receive for each student enrolled the same funding as for each non-special education student as provided in clause (2) above, plus an additional amount determined by dividing the district of residence's total special education expenditure by the product of multiplying the combined percentage calculated pursuant to 24 P.S. §25-2509.5(k) (currently 0.16) times the district of residence's total average daily membership for the prior school year. This amount shall be paid by the district of residence of each student.

(4) A charter school may request the intermediate unit in which the charter school is located to provide services to assist the charter school to address the specific needs of exceptional students. The intermediate unit shall assist the charter school and bill the charter school for the services. The intermediate unit may not charge the charter school more for any service than it charges the constituent districts of the intermediate unit.

(5) Payments shall be made to the charter school in twelve (12) equal monthly payments, by the fifth day of each month, within the operating school year. A student enrolled in a charter school shall be included in the average daily membership of the student's district of residence for the purpose of providing basic education funding payments and special education funding pursuant to 24 P.S. § 25-2501 et seq. If a school district fails to make a payment to a charter school as prescribed in this clause, the Secretary shall deduct the estimated amount, as documented by the charter school, from any and all Commonwealth payments made to the district after receipt of documentation from the charter school. No later than October 1 of each year, a charter school shall submit to the school district of residence of each student final documentation of payment to be made based on the average daily membership for the students enrolled in the charter school from the school district for the previous school year. If a school district fails to make payment to the charter school, the secretary shall deduct and pay the amount as documented by the charter school from any and all State payments made to the district after receipt of documentation from the charter school from the appropriations for the fiscal year in which the final documentation of payment was submitted to the school district of residence.

(6) Within thirty (30) days after the Secretary makes the deduction described in clause (5) above, a school district may notify the Secretary that the deduction made from Commonwealth payments to the district under this paragraph is inaccurate. The Secretary shall provide the school district with an opportunity to be heard concerning whether the charter school documented that its students were enrolled in the charter school, the period of time during which each student was enrolled, the school district of residence of each student and whether the amounts deducted from the school district were accurate.

(b) The Commonwealth shall provide temporary financial assistance to a school district due to the enrollment of students in a charter school who attended a nonpublic school in the prior school year in order to offset the additional costs directly related to the enrollment of those students in a public charter school. The Commonwealth shall pay the school district of residence of a student enrolled in a nonpublic school in the prior school year who is attending a charter school an amount equal to the school district of residence's basic education subsidy for the current school year divided by the district's average daily membership for the prior school year. This payment shall occur only for the first year of the attendance of the student in a charter school, starting with school year 1997-98. Total payments of temporary financial assistance to school districts on behalf of a student enrolling in a charter school who attended a nonpublic school in the prior school year shall be limited to funds appropriated for this program in a fiscal year. If the total of the amount needed for all students enrolled in a nonpublic school in the prior school year who enroll in a charter school exceeds the appropriation for the temporary financial assistance program, the amount paid to a school district for each qualifying student shall be pro rata reduced. Receipt of funds under this paragraph shall not preclude a school district from applying for a grant under paragraph (c) below.

(c) The Commonwealth shall create a grant program to provide temporary transitional funding to a school district due to the budgetary impact relating to any student's first-year attendance at a charter school. The PDE shall develop criteria which shall include, but not be limited to, the overall fiscal impact on the budget of the school district resulting from students of a school district attending a charter school. The criteria shall be published in the Pennsylvania Bulletin. This subsection shall not apply to a public school converted to a charter school under 24 P.S. § 17-1717-A(b). Grants shall be limited to funds appropriated for this purpose.

(d) It shall be lawful for any charter school to receive, hold, manage, and use, absolutely or in trust, any devise, bequest, grant, endowment, gift or donation of any property, real or personal and/or mixed, which shall be made to the charter school for any of the purposes of the Charter School Law.

(e) It shall be unlawful for any trustee of a charter school or any board of trustees of a charter school or any other person affiliated in any way with a charter school to demand or request, directly or indirectly, any gift, donation or contribution of any kind from any parent, teacher, employee or any other person affiliated with the charter school as a condition for employment or enrollment and/or continued attendance of any pupil. Any donation, gift, or contribution received by a charter school shall be given freely and voluntarily.

TRANSPORTATION (24 P.S. § 17-1726-A)

(a) Students who attend a charter school located in their school district of residence, a regional charter school of which the school district is a part or a charter school located outside district boundaries at a distance not

exceeding ten (10) miles by the nearest public highway shall be provided free transportation to the charter school by their school district of residence on such dates and periods that the charter school is in regular session whether or not transportation is provided on such dates and periods to students attending schools of the district. Transportation is not required for elementary students, including kindergarten students, residing within one and one-half (1.5) miles or for secondary students residing within two (2) miles of the nearest public highway from the charter school in which the students are enrolled unless the road or traffic conditions are such that walking constitutes a hazard to the safety of the students when so certified by the Department of Transportation, except that if the school district provides transportation to the public schools of the school district for elementary students, including kindergarten students, residing within one and one-half (1.5) miles or for secondary students residing within two (2) miles of the nearest public highway under nonhazardous conditions, transportation shall also be provided to charter schools under the same conditions. Districts providing transportation to a charter school outside the district and, for the 2007-08 school year and each school year thereafter, districts providing transportation to a charter school within the district shall be eligible for payments under 24 P.S. § 25-2509-3 for each public school student transported.

(a.1) In addition to any other requirements in this section, school districts of the first class shall provide transportation to students who attend a charter school if they are the same age or are enrolled in the same grade, grades or their grade equivalents as any of the students of the school district for whom transportation is provided under any program or policy to the schools of the school district.

(b) In the event that the Secretary of Education determines that a school district is not providing the required transportation to students to the charter school, the Department of Education shall pay directly to the charter school funds for costs incurred in the transportation of its students. Payments to a charter school shall be determined in the following manner: for each eligible student transported, the charter school shall receive a payment equal to the total expenditures for transportation of the school district divided by the total number of school students transported by the school district under any program or policy.

(c) The PDE shall deduct the amount paid to the charter school under paragraph (b) of this section from any and all payments made to the district.

(d) A school district of the first class shall submit a copy of its current transportation policy to the PDE no later than August 1 of each year.

TORT LIABILITY (24 P.S. § 17-1727-A)

For purposes of tort liability, employees of the charter school shall be considered public employees and the board of trustees shall be considered the public employer in the same manner as political subdivisions and local agencies. The board of trustees of a charter school and the charter school shall be solely liable for any and all damages of any kind resulting from any legal challenge involving the operation of a charter school. Notwithstanding this requirement, the local board of directors of a school entity shall not be held liable for any activity or operation related to the program of the charter school.

ANNUAL REPORTS AND ASSESSMENTS (24 P.S. § 17-1728-A)

(a) The local board of school directors shall annually assess whether each charter school is meeting the goals of its charter and shall conduct a comprehensive review prior to granting a five (5) year renewal of the charter. The local board of school directors shall have ongoing access to the records and facilities of the charter school to ensure that the charter school is in compliance with its charter and this act and that requirements for testing, civil rights and student health and safety are being met.

(b) In order to facilitate the local board's review and Secretary's report, each charter school shall submit an annual report no later than November 15 of each year to the local board of school directors and the Secretary in the form prescribed by the Secretary.

CAUSES FOR NONRENEWAL OR TERMINATION (24 P.S. § 17-1729-A)

(a) During the term of the charter or at the end of the term of the charter, the local board of school directors may choose to revoke or not to renew the charter based on any of the following:

(1) One or more material violations of any of the conditions, standards, or procedures contained in the written charter signed pursuant to 24 P.S. § 17-1720-A.

(2) Failure to meet the requirements for student performance set forth in the Pennsylvania Code, 22 Pa. Code Ch. 5, relating to curriculum or subsequent regulations promulgated to replace such requirements or failure to meet any performance standard set forth in the written charter signed pursuant to 24 P.S. § 17-1716-A.

(3) Failure to meet generally accepted standards of fiscal management or audit requirements.

(4) Violation of provisions of the Charter School Law.

(5) Violation of any provision of law from which the charter school has not been exempted, including Federal laws and regulations governing children with disabilities.

(6) The charter school has been convicted of fraud.

(a.1) When a charter school located in a school district of the first class is in corrective action status and seeks renewal of its charter, if the governing body of the school district of the first class renews the charter, it may place specific conditions in the charter that require the charter school to meet specific student performance targets within stated periods of time subject to the following: (i) the performance targets and the periods of time in which the performance targets must be met shall be reasonable; (ii) the placement of conditions in a charter as specified in this subsection shall not be considered an adjudication and may not be appealed to the Charter School Appeal Board; and (iii) if the charter school fails to meet the performance targets within the stated period of time, such failure shall be sufficient cause for revocation of the charter.

(b) A member of the board of trustees who is convicted of a felony or any crime involving moral turpitude shall be immediately disqualified from serving on the board of trustees.

(c) Any notice of revocation or nonrenewal of a charter given by the local board of school directors of a school district shall state the grounds for such action with reasonable specificity and give reasonable notice to the governing board of the charter school of the date on which a public hearing concerning the revocation or nonrenewal will be held. The local board of school directors shall conduct such hearing, present evidence in support of the grounds for revocation or nonrenewal stated in its notice and give the charter school reasonable opportunity to offer testimony before taking final action. Formal action revoking or not renewing a charter shall be taken by the local board of school directors at a public meeting pursuant to the Sunshine Act, after the public has had thirty (30) days to provide comments to the board. All proceedings of the local board pursuant to this paragraph shall be subject to 2 Pa.C.S. Ch. 5 Subch. B (relating to practice and procedure of local agencies). Except as provided in paragraph (d) of this section, the decision of the local board shall not be subject to 2 Pa.C.S. Ch. 7 Subch. B (relating to judicial review of local agency action).

(d) The charter school may appeal the decision of the local board of school directors to revoke or not renew the charter to the Charter School Appeal Board. The Charter School Appeal Board shall have the exclusive review of a decision not to renew or revoke a charter. The Charter School Appeal Board shall review the record and shall have the discretion to supplement the record if the supplemental information was previously unavailable. The Charter School Appeal Board may consider the charter school plan, annual reports, student performance and employee and community support for the charter school in addition to the record. The Charter School Appeal Board shall give due consideration to the findings of the local board of directors and specifically articulate its reasons for agreeing or disagreeing with those findings in its written decision.

(e) If the Charter School Appeal Board determines that the charter should not be revoked or should be renewed, the Charter School Appeal Board shall order the local board of directors to rescind its revocation or nonrenewal decision.

(f) Except as provided in paragraph (g) of this section, the charter shall remain in effect until final disposition by the Charter School Appeal Board.

(g) In cases where the health or safety of the school's pupils, staff or both is at serious risk, the local board of school directors may take immediate action to revoke a charter.

(h) All decisions of the charter school Charter School Appeal Board shall be subject to appellate review by the Commonwealth Court.

(i) When a charter is revoked, not renewed, forfeited, surrendered, or otherwise ceases to operate, the charter school shall be dissolved. After the disposition of any liabilities and obligations of the charter school, any remaining assets of the charter school, both real and personal, shall be distributed on a proportional basis to the school entities with students enrolled in the charter school for the last full or partial school year of the charter school. In no event shall such school entities or the Commonwealth be liable for any outstanding liabilities or obligations of the charter school.

(j) When a charter is revoked or is not renewed, a student who attended the charter school shall apply to another public school in the student's school district of residence. Normal application deadlines will be disregarded under these circumstances. All student records maintained by the charter school shall be forwarded to the student's district of residence.

PROVISIONS APPLICABLE TO CHARTER SCHOOLS (24 P.S. § 17-1732-A)

(a) Charter schools are subject to specified sections of the School Code and other Commonwealth law including those relating to: (i) requiring criminal history checks and preventing employment of persons guilty of certain offenses; (ii) offering and receiving bribes; (iii) requiring bonds for the secretary and treasurer; (iv) record retention; (v) generally exempting school property from taxation and municipal assessments; (vi) certain qualifications of teachers; (vii) suspension and expulsion of pupils; (viii) reporting of incidents involving acts of violence, possession of a weapon or possession, use or sale of controlled substances; (ix) prohibiting discriminatory practices; (x) provision of health services; and (xi) the anti-hazing law.

(b) Charter schools are subject to, among others, the provisions of 22 Commonwealth Code of Regulations relating to: English as a second language; pupil attendance; students and student services; assurances as to compliance with equal education opportunity; discrimination prohibited; practices for professional educators; civil rights; and charter school services and programs for children with disabilities.

(c) The Secretary may promulgate additional regulations relating to charter schools. The Secretary shall have the authority and the responsibility to ensure that charter schools comply with Federal laws and regulations governing children with disabilities.

OMNIBUS SCHOOL CODE

On July 13, 2016, the Omnibus School Code was enacted into law. The provisions of the Omnibus School Code provide (in pertinent part) as follows.

- No later than October 1 of each year, a charter school shall submit to the school district of residence of each student final documentation of payment to be made based on the average daily membership for the students enrolled in the charter school from the school district for the previous school year. If a school district fails to make payment to the charter school, the Secretary shall deduct and pay the amount as documented by the charter school from any and all state payments made to the district

after receipt of documentation-from the charter school from the appropriations for the fiscal year in which the final documentation of payment was submitted to the school district of residence.

- The Omnibus School Code removed any requirement for the Commonwealth to make payments to charter schools for contributions to retirement and social security payments.
- ☐ The PDE is required to post annual financial information related to public school entities on its website. The Omnibus School Code requires the following information to be posted related to each school entity: total expenditures by category; per student expenditures; charter school tuition rates; average daily membership; average teacher salary; total revenue by source; general fund balance; a link to the school's website; a summary of financial report data; a non administrative and administrative staff compensation report; and, a statement instructing the public to contact the public school entity for access to any union contract. The information must be posted on the applicable entity's School Performance Profile. No public school entity will be required to provide any additional information not specifically required as of the effective date of the legislation, and no public school entity shall be required to provide additional information beyond the information required to be provided by any other public school entity.
- Also implemented is the Special Education Funding Commission's recommended formula currently contained in the Fiscal Code, which considers a weighted student count based on student costs, wealth, tax effort and sparsity/size.
- The Omnibus School Code provides that one percent of the special education funding appropriation be set aside for the contingency fund to be used for extraordinary expenses.
- The Omnibus School Code requires (i) Social Security payments to be made on a quarterly basis, (ii) employers to submit a report to PDE documenting all wages for which payments are calculated on the 20th day of the month following the end of the applicable quarter, and (iii) PDE to make payment on the last Thursday of the month following the end of the applicable quarter.
- A program is established within PDE to award planning grants of up to \$50,000 and implementation grants of up to \$250,000 to school districts, intermediate units, area vocational technical schools and charter schools to provide hybrid learning programs that blend digital resources with classroom teaching. School entities that wish to work together may submit a joint application. School entities that are awarded grants must provide a cash or in kind local match of money of at least 25% of the total project cost and agree to share lessons with other grantees. The grants cannot be counted as expenditures when calculating a school district's charter school payment amount. At least 15% of the funds appropriated for the program must be used to support schools in the lowest 5% based on academic performance.
- The Omnibus School Code clarifies the method used to determine the aid ratio and market value/income aid ratio for charter schools and cyber charter schools. For a charter school, the aid ratio and market value/income aid ratio is the same as for the district that granted the charter. For a regional charter school, it will be a composite, as determined by PDE, based on the districts that granted the charter. For a cyber charter school, it will be that of the school district in which the administrative office of the cyber school is located.
- PDE is allowed to use up to \$4.5 million in undistributed funds to assist school districts in financial distress or identified for financial watch status.

MULTIPLE CHARTER SCHOOL ORGANIZATIONS

In December 2017, the Charter School Law was amended to add provisions concerning multiple charter school organizations ("MCSOs") to enable academically high performing charter schools to consolidate to form

MCSOs after approval from the local school district and PDE. PDE released the MCSO application form in early May 15, 2018. To date, no MCSOs have yet been approved.

PROPOSED STATE LEGISLATION ON CHARTER SCHOOLS

A variety of legislation had previously been introduced in the Pennsylvania General Assembly that, if enacted, would have impacted charter schools. Such legislation has included provisions which would: (1) convert the existing Charter Appeals Board to a statewide authorizing and appeals entity titled the State Charter Schools Entity Board (the "State Board") to oversee charter schools, including the power to grant new charters and permit existing charter schools to petition to transfer their charter from their current school district to the State Board; (2) establish a Charter School Entities Funding Advisory Committee to conduct a comprehensive review of charter school funding and make recommendations regarding funding formulas and reimbursement procedures for charter schools; (3) provide for direct payment of funding from the PDE, with an option for a charter school to opt out; (4) extend the term of new charters from the current three years to a required five year term and renewals from charters from at least five to potentially ten years for those charter schools that satisfy the academy quality benchmarks established by the State Board; (5) put additional ethical restrictions on members of a charter school's board and its administration, including restrictions on outside business relationships with the charter school or with other charter schools; (6) impose certain restrictions with respect to management, operating or educational service contracts; (7) prohibit enrollment caps; (8) limit unrestricted, unreserved fund balances at charter schools to 8% to 12% of budgeted expenditures, depending on budget size, with any excess to be refunded to the applicable school districts; (9) require charter schools that elect to issue debt to provide sufficient funds in escrow, and impose penalty for failure of charter schools to pay any indebtedness at the time payment is due; (10) allow charter schools to enter into concurrent enrollment agreements with institutions of higher education; (11) allow a governing body of a higher education institution to authorize and operate a charter school; (12) permanently reduce Commonwealth contribution on behalf of charter school employees enrolled in the Public School Employee's Retirement System by 50%; (13) reduce the amount to be paid by a school district for each student enrolled in a cyber charter school by 5%; (14) exclude 30% of employer's share of retirement contributions from the calculation of charter school entity funding in determining per pupil payments; (15) permit charter schools to unilaterally amend the terms of their charter; (16) allow the PDE the power to grant new charters; (17) permit charter schools in the City of Philadelphia to ignore the authority of the School Reform Commission; (18) require that at least one parent serve on the charter school's board; (19) require greater transparency with regard to education management service providers; (20) remove the ability of the School District of Philadelphia to grant one year charters, give charter school the right of first refusal to buy school district buildings no longer in active use, and add deductions for school district revenues that come from grants, contributions or donations prior to calculating the charter tuition rate; (21) provide for each charter school to conduct an annual independent audit; (22) require the PDE to create a new performance matrix for all charter schools; (23) prevent charter schools from being paid twice for the same employee pension costs; (24) require an annual reconciliation, where charter schools will refund money to their sending school districts if the charter school's audited expenditures are less than its revenue; and (25) require all new charter school teachers to possess appropriate state certifications.

The proposals referenced above did not receive enough support in the legislature prior to the end of the current legislative session and therefore have not been enacted into law to date. New legislation would have to be introduced in a legislative session in order to be considered for passage.

LITIGATION WITH POTENTIAL IMPACT ON CHARTER SCHOOLS

Charter schools, school districts, and the Commonwealth file or engage in litigation, the outcome of which may have a negative state-wide effect on charter schools in the Commonwealth, including the School. Such litigation includes, but is not limited to the following.

First Philadelphia Preparatory Charter School et al. v. School District of Philadelphia et al., filed March 29, 2017 in the Philadelphia Court of Common Pleas.

On March 29, 2017, seven schools (the "Plaintiffs") chartered by the School District of Philadelphia ("SDP") filed a Class Action Complaint (the "Complaint") against the SDP and the School Reform Commission of the School District of Philadelphia ("SRC"). The schools have filed on behalf of themselves and other similarly situated Philadelphia charter schools including "all charter schools operating during the 2016-2017 school year under charters

authorized by the [SRC]." The Complaint alleges that SDP's recalculation of per pupil funding rates based upon actual expenditures (rather than budgeted expenditures) and imposition of those rates upon its charter schools violates the plain language of the Charter School Law. The Plaintiffs were seeking declaratory, injunctive and mandamus relief against the SDP and SRC.

The basis of the Complaint was in Section 1725-A(a) of the Charter School Law. See "– Funding for Charter Schools" above. Clause (a)(2) of this section states that "For non-special education students, the charter school shall receive for each student enrolled no less than the budgeted total expenditure per average daily membership of the prior school year, as defined in section 2501(20), minus the budgeted expenditures of the district of residence...." (emphasis added) and clause (a)(3) provides that for special education students, "the charter school shall receive for each student enrolled the same funding as for each non-special education student as provided in clause (2), plus an additional amount...." (emphasis added).

In 2012 PDE issued guidance to school districts whereby it instructed them to first calculate preliminary per pupil funding rates based upon budgeted expenditures (by no later than July 31 of the fiscal year for which the funding rates applied) and then to revise those funding rates throughout the year to reflect actual (rather than budgeted) expenditures. PDE further noted it would calculate each school district's per pupil funding rates using final, approved data reported on a school district's annual financial report with such revised rates to be posted on PDE's website. It has done so since approximately 2012, sometimes to the benefit and sometimes to the detriment of charter schools, depending upon a particular district's funding adjustment.

The Plaintiffs alleged that Section 1725-A(a) of the Charter School Law had been misinterpreted and misapplied. The Complaint seeks an Order declaring that 1725-A(a), among other things, prohibits the calculation by SDP of charter school per pupil subsidy rates based upon actual expenditures of the prior school year rather than budgeted expenditures for the prior school year, where budgeted expenditures for that school year exceed actual expenditures.

On April 3, 2017, the Court of Common Pleas for Philadelphia County dismissed the Plaintiffs' Emergency Motion for Preliminary Injunction due to a lack of jurisdiction ruling that the PDE is an indispensable party. The Court dismissed the Motion without Prejudice, allowing the Plaintiffs to file in the Commonwealth Court.

On April 19, 2017, the Plaintiffs both withdrew their remaining actions in Common Pleas Court and filed similar actions, as petitioners, against the SDP, the SRC, the PDE, the Governor of Pennsylvania, and the General Assembly ("Respondents") in Commonwealth Court. In its Commonwealth Court filing, Plaintiffs not only allege that SDP misinterpreted and misapplied Section 1725-A(a) of the Charter School Law but that PDE did so as well in the issuance of its 2012 363 Guidelines (the "Guidelines") and its annual publishing of revised rates. Plaintiffs renewed their Motion for Preliminary Injunction in Commonwealth Court to prevent the SDP from revising its rates in the middle of the school year, and force it to continue paying subsidies based on budgeted expenditures while this litigation is pending. Certain Respondents filed a response to Plaintiffs' Motion on April 24, 2017 arguing that Plaintiffs have not yet exhausted their administrative remedies by filing for redirection, and that preliminary injunction is not proper. A hearing on the Plaintiff's Motion for Preliminary Injunction was conducted on July 11, 2017 and on July 19, 2017 the Commonwealth Court granted the Plaintiffs' motion for preliminary injunction, in part, as to the payment scheduled to be made on August 5, 2017, and as to any future payments until further order of the Commonwealth Court. *First Philadelphia Preparatory Charter Sch. v. Commonwealth, Dep't of Educ.*, No. 159 M.D. 2017, 2017 WL 3048624, at *4 (Pa. Commw. Ct. July 19, 2017).

While the SDP's recalculation resulted in lower per pupil funding rates in 2016-2017, the net change varies from year to year and district to district and is impossible to predict. The result of this litigation could impact whether charter schools will need to budget for variability (positive or negative) in their per pupil funding rates in the middle of a school year or whether a charter can plan for the same per pupil funding rates for a twelve month period.

Argument before the Commonwealth Court occurred on October 19, 2017. On May 22, 2018 the Commonwealth Court issued an Opinion stating that the Guidelines are in derogation of the plain language of the Charter School Law, and thus are "*per se* invalid *First Philadelphia Preparatory Charter Sch. v. Commonwealth, Dep't of Educ.*, 179 A.3d 128 (Pa. Comwlth. 2018). The Commonwealth Court further indicated it would find that the Guidelines are in conflict with the language of the Charter School Law.

Accordingly, on March 16, 2018, the PDE issued a statement providing notice that the PDE was, effectively immediately, rescinding the July 2012 version and all prior versions of the Guidelines. Such notice further indicated that: (i) beginning with the 2018-2019 school year, PDE will no longer receive completed PDE-363 forms from school districts or post charter school funding rates on its website, (ii) PDE will not calculate each school district's charter school funding rates using AFR and ADM information and, instead, each school district should calculate its own nonspecial education and special education charter school funding rates pursuant to the direction in section 1725-A(a)(2) and (3) of the Charter School Law and make that information available to charter schools as necessary to explain the amounts paid throughout the school year, and (iii) any disputes concerning the amounts paid by a school district to a charter school should be resolved pursuant to the procedures in section 1725-A(a)(5) and (6) of the Charter School Law.

In response to the *First Philadelphia* decision, on April 19, 2018, the PDE issued a guidance stating that schools requesting redirection of funds must continue to submit PDE-363 forms calculating charter school funding rates in doing so. The PDE made a revised PDE-363 form available on its website and confirmed that requesting schools should continue to deduct federal funds in making the calculations to complete the form. Finally, the PDE guidance requires requesting schools to identify the budget or other financial document they relied upon in calculating funding rates and completing the PDE-363 form.

Based on the PDE response, on January 9, 2019 in an unpublished opinion the Commonwealth Court dismissed as moot the remaining counts and transferred the case back to the Philadelphia Court of Common Pleas for further proceedings, if any.

William Penn SD et al. v. Dept. Ed. et al., filed in the Commonwealth Court of Pennsylvania.

A group of six school districts and several parents filed suit against leaders of the House and Senate, the Secretary of Education and Department of Education, the State Board of Education, and the Governor. The plaintiffs are seeking declaratory relief to declare that the current system of funding our schools does not comply with the state constitution; to order the defendants to cease using a funding system that does not provide adequate funding for all students and which discriminates against low-wealth districts; and order the defendants to create and maintain a constitutional school funding system that will enable all students to meet state academic standards and does not discriminate against low-wealth school districts.

The case is proceeding in Pennsylvania Commonwealth Court. In December 2018, the court issued a briefing and trial scheduling order setting the timeline for Pennsylvania students to finally have their day in court. The parties are currently in the pre-trial phase known as discovery when each party is gathering evidence to support their case through documents, witness statements, and other means. Fact discovery is set to be completed by July 16, 2020, and the case is tentatively scheduled for trial in late 2020 or early 2021.

If the plaintiffs are successful, this case may have a potential impact on charter school per pupil funding, which is determined in reference to local school district funding pursuant to 24 P.S. § 1725-A.

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APPENDIX E

SUBSTANTIALLY FINAL FORMS OF CERTAIN FINANCING DOCUMENTS

The forms of the Lease, the Mortgage, and the SNDA for the DeMedici II Facility are substantially similar to the Lease, the Mortgage, and the SNDA for the DeMedici Facility, which are included in this Appendix E.

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by and between

PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT
as Issuer

and
U.S. BANK NATIONAL ASSOCIATION
as Trustee

\$52,405,000
Philadelphia Authority for Industrial Development
Charter School Revenue Bonds
(Philadelphia Performing Arts: A String Theory Charter School Project)
Series 2020

Dated as of December 1, 2020

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INDENTURE OF TRUST

THIS INDENTURE OF TRUST, dated as of December 1, 2020 (this “Indenture”), is by and between the **PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT** (the “Authority”), a public instrumentality of the Commonwealth of Pennsylvania (the “Commonwealth”) and public body corporate and politic organized and existing under the Pennsylvania Economic Development Financing Law, Act of August 23, 1967, P.L. 251, as amended (the “Act”), and **U.S. BANK NATIONAL ASSOCIATION**, a national banking association duly organized and existing under the laws of the United States of America, as trustee (the “Trustee”), being authorized to accept and execute trusts of the character herein set out under and by virtue of the laws of the United States of America.

WITNESSETH:

WHEREAS, certain of the capitalized terms used in the preambles hereto are defined in Article I of this Indenture; and

WHEREAS, each of DeMedici Corporation (“DeMedici”) and DeMedici Corporation II (“DeMedici II”) and, together with DeMedici, the “Borrowers” and each a “Borrower”), is a duly organized and validly existing Pennsylvania non-profit corporation (collectively, the “Borrower,” individually or collectively as the context may require) that is an organization described in Section 501(c)(3) of the Code (as herein defined), which is exempt from federal taxation under Section 501(a) of the Code; and

WHEREAS, the Borrowers have requested that the Authority issue its bonds and loan the proceeds therefrom to the Borrower in order to: (a) refund the Authority’s Revenue Bonds (Philadelphia Performing Arts Charter School Project), Series of 2013, issued in the original aggregate principal amount of \$55,500,000 and outstanding in the principal amount of \$51,940,000 (the “Refunded Bonds”) the proceeds of which were used to finance school facilities located at (i) 2600-30 South Broad Street, Philadelphia, PA; (ii) 2407 Broad Street, Philadelphia, PA, 1338-42 Rinker Street, Philadelphia, PA and 2419-37 South Broad Street, Philadelphia, PA; and (iii) 1600 Vine Street, Philadelphia, PA (collectively, the “2013 Facilities”); (b) finance the payment of, or reimbursement to the Borrowers for, the acquisition, construction, renovation and equipping of school facilities and other buildings located at 2632 South Broad Street, Philadelphia, PA 19145 (the “2632 Broad Street Facility”) and, together with the 2013 Facilities, the “Facilities” and individually, a “Facility”) to expand capacity for the operations of Philadelphia Performing Arts: A String Theory Charter School (the “Corporation”), a public charter school duly organized and validly existing under the Pennsylvania Charter School Law (24 P.S. §17-1701-A, et seq.) for use in its school operations; (c) fund a debt service reserve fund for the Series 2020 Bonds; and (d) fund all or a portion of the costs of issuance of the hereinafter defined Series 2020 Bonds (collectively, the “Project”); and

WHEREAS, the Corporation is a nonprofit corporation duly created and validly existing under the laws of the Commonwealth and a tax-exempt organization under Section 501(c)(3) of the Code; and

WHEREAS, in order to finance the cost of the Project, the Authority shall issue its Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project)

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EXHIBIT A – Form of Series 2020 Bond

Series 2020 (the “Series 2020 Bonds”) in the original aggregate principal amount of \$52,405,000 pursuant to and secured by this Indenture; and

WHEREAS, pursuant to a Loan Agreement dated as of the date hereof (the “Loan Agreement”), between the Authority and the Borrowers, the Authority has agreed to loan to the Borrowers the sale proceeds of the Series 2020 Bonds to finance the Project and the Borrowers have agreed to pay to the Authority loan payments sufficient to meet the obligations under the Series 2020 Bonds when the same become due and payable; and

WHEREAS, as security for its obligation to make payments required under the Loan Agreement, DeMedici, as “Obligated Group Representative” of the Obligated Group identified in the Master Indenture described below, has issued a promissory note (the “2020 Note”) under the terms of and pursuant to the Master Trust Indenture dated as of December 1, 2020 (the “Original Master Indenture”), between the Obligated Group and U.S. Bank National Association, as master trustee (the “Master Trustee”), as supplemented by a Supplemental Master Trust Indenture No. 1 dated as of December 1, 2020 (the “Supplemental Master Indenture” and, together with the Original Master Indenture, the “Master Indenture”) between the Obligated Group Representative and the Master Trustee; and

WHEREAS, the Corporation currently leases the 2013 Facilities from the Borrowers under two separate lease agreements and upon the issuance of the Series 2020 Bonds, DeMedici will use a portion of the proceeds of the Series 2020 Bonds to acquire, or refinance the purchase of, the 2632 Broad Street Facility, the Corporation’s existing lease of the 2013 Facilities will terminate and the Borrowers and the Corporation will enter into two separate Lease Agreements (the “DeMedici Lease” and the “DeMedici II Lease” and, together, the “Leases” and individually a “Lease”) for the Facilities that provides that for the payment of Base Rent (as defined in the Leases) by the Corporation to the Master Trustee (for the account of the Borrowers) in an aggregate amount that will be in an amount sufficient to pay the debt service on the 2020 Note; and

WHEREAS, the Series 2020 Bonds and the authentication certificate is to be substantially in the form set forth in Exhibit A hereto, with such necessary or appropriate variations, omissions and insertions as permitted or required by this Indenture; and

WHEREAS, all things necessary to make the Series 2020 Bonds, when authenticated by the Trustee and issued as in this Indenture provided, the valid, binding and legal obligations of the Authority and to constitute this Indenture a valid, binding and legal instrument for the security of the Series 2020 Bonds in accordance with its terms, have been done and performed.

NOW, THEREFORE, THIS INDENTURE OF TRUST WITNESSETH:

That the Authority, in consideration of the premises and of the mutual covenants contained and of the purchase and acceptance of the Bonds by the Registered Owners thereof and of the sum of One Dollar to it duly paid by the Trustee at or before the execution and delivery of these presents, and for other good and valuable consideration, the receipt of which is hereby acknowledged, in order to secure the payment of the principal of, premium, if any, and interest on all the Series 2020 Bonds and any Additional Bonds at any time Outstanding under this Indenture, according to their tenor and effect, to secure the performance and observance of all the covenants

and conditions in the Series 2020 Bonds and any Additional Bonds and herein contained, and to declare the terms and conditions upon and subject to which the Series 2020 Bonds are, or any Additional Bonds will be, issued and secured, has executed and delivered this Indenture and has granted, bargained, sold, alienated, assigned, pledged, set over and confirmed, and by these presents does grant, bargain, sell, alien, assign, pledge, set over and confirm unto the Trustee, for its benefit and the benefit of the Registered Owners from time to time of the Series 2020 Bonds and any Additional Bonds, and to its successors and assigns forever, all and singular the following described property, rights and interest:

(a) The rights and interests of the Authority under the Loan Agreement dated as of December 1, 2020, as amended from time to time (the “Agreement”), by and between the Authority and Borrowers, except all rights of the Authority pursuant to Sections 5.02(f), 8.06, 10.04, 12.10 and 12.11 of the Agreement and all of its rights, without limiting the Trustee’s obligation to exercise its rights and remedies under Sections 5.02(f), 8.06, 10.04, 12.10 and 12.11 of the Agreement, and its right to receive certain reports and perform certain discretionary acts pursuant to the Agreement (collectively, the “Unassigned Rights”).

(b) The 2020 Note.

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

(d) Any and all other interests in real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind specifically mortgaged, pledged or hypothecated, as and for additional security hereunder by the Authority or by anyone on its behalf or with its written consent in favor of the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same, subject to the terms hereof.

TO HAVE AND TO HOLD the same with all privileges and appurtenances hereby conveyed and assigned, or agreed of intended to be, to the Trustee and its successors in said Trust and assigns forever.

IN TRUST NEVERTHELESS, upon the terms herein set forth for the equal and proportionate benefit, security and protection of all Registered Owners of the Bonds issued under and secured by this Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Bonds over any other of the Bonds except as otherwise provided in Article VII hereof or with respect to moneys otherwise held to redeem or pay particular Bonds hereunder.

PROVIDED, HOWEVER, that if the Authority, its successors or assigns shall well and truly pay or cause to be paid, the principal of the Bonds and the premium, if any, and the interest

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such action (a) is permitted by this Indenture and the Act, and (b) will not adversely affect the exclusion of interest on the Series 2020 Bonds (and any series of Additional Tax-Exempt Bonds) from gross income of the Registered Owners for purposes of federal income taxation.

“*Authority*” has the meaning set forth in the granting clauses of this Indenture.

“*Authorized Denomination*” means \$100,000 and integral multiples of \$5,000 in excess thereof.

“*Authorized Representative*” means, in the case of the Authority, the Chair or the Vice-Chair or Executive Director thereof, in the case of the Corporation, the President, any Vice President or the Secretary thereof and, when used with reference to the performance of any act, the discharge of any duty or the execution of any certificate or other document, any officer, employee or other person authorized to perform such act, discharge such duty or execute such certificate or other document.

“*Beneficial Owner*” means any person for which a Participant acquires an interest in the Bonds.

“*Bond Counsel*” means Ballard Spahr LLP, or any other attorney or firm of attorneys, which is admitted to practice law before the highest court of any state in the United States of America or the District of Columbia and nationally recognized and experienced in legal work relating to the issuance of tax-exempt bonds.

“*Bond Documents*” means this Indenture, the Agreement, the Leases, the Mortgages, the Master Indenture and the Bond Purchase Agreement.

“*Bond Interest Fund*” means the Bond Interest Fund created in Section 3.02 hereof.

“*Bond Principal Fund*” means the Bond Principal Fund created in Section 3.02 hereof.

“*Bond Purchase Agreement*” means the Bond Purchase Agreement dated November 19, 2020, by and among the Authority, the Borrowers, the Corporation and the Underwriter.

“*Bonds*” means, collectively, the Series 2020 Bonds and any Additional Bonds.

“*Borrowers*” means, collectively, DeMedici and DeMedici II, or any surviving, resulting or transferee non-profit corporation as provided for in the Agreement.

“*Borrowers’ Administrative Agent*” means the Chairman of the Board of Trustees of DeMedici.

“*Business Day*” means any day other than a Saturday or Sunday or a day on which banking institutions in the Commonwealth are authorized to close.

“*Capital Maintenance Fund*” means the Capital Maintenance Fund created in Section 3.02 hereof.

due or to become due thereon, at the times and in the manner mentioned in the Bonds according to the true intent and meaning thereof, and shall cause the payments to be made into the Bond Principal Fund and the Bond Interest Fund as hereinafter required or shall provide, as permitted hereby, for the payment thereof by depositing with the Trustee the entire amount due or to become due thereon, or certain securities as herein permitted and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Trustee, the Authority and the United States of America all sums of money due or to become due to them in accordance with the terms and provisions hereof, then upon such final payments this Indenture and the rights hereby granted shall cease, terminate, and be void; otherwise this Indenture to be and remain in full force and effect.

IT IS HEREBY EXPRESSLY ACKNOWLEDGED that the Authority has entered into this Indenture and issued the Series 2020 Bonds and may issue Additional Bonds to fulfill the public purposes of the Act, and the Trustee, upon the terms and conditions set forth herein, hereby accepts such trust and covenants to enforce the provisions of this Indenture and the Agreement so as to effect the public purposes of the Act.

THIS INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated and delivered, and all said property, rights, interests, revenues and funds hereby pledged, assigned and mortgaged are to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes as hereinafter expressed, and the Authority has agreed and covenanted, and does hereby agree and covenant with the Trustee for the benefit of the Registered Owners from time to time of the Bonds as follows:

ARTICLE I DEFINITIONS; INDENTURE TO CONSTITUTE CONTRACT

Section 1.01 Definitions. In addition to the defined terms in the Recitals to this Indenture, all words and phrases defined in Article I of the Agreement shall have the same meaning in this Indenture. In addition, the following terms, except where the context indicates otherwise, shall have the respective meanings set forth below:

“*2020 Note*” has the meaning set forth in the recitals to this Indenture.

“*Act*” has the meaning set forth in the recitals to this Indenture.

“*Additional Bonds*” means any bonds, other than the Series 2020 Bonds, that are authenticated and delivered under this Indenture in accordance with Section 2.11 hereof.

“*Additional Tax-Exempt Bonds*” means any Additional Bonds the interest on which is excluded from gross income of the holders thereof for federal income tax purposes.

“*Agreement*” has the meaning set forth in the recitals to this Indenture.

“*Approving Opinion*” means, with respect to any action relating to the Bonds, the occurrence of which requires an Opinion of Counsel delivered by Bond Counsel to the effect that

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“*Capital Maintenance Fund Requirement*” means \$600,000, provided, however that such amount may be increased, if necessary, upon the issuance of Additional Bonds.

“*Cede*” means Cede & Co., the nominee of DTC, and any successor nominee of DTC.

“*Code*” means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

“*Commonwealth*” means the Commonwealth of Pennsylvania.

“*Consulting Architect*” means an individual or an independent engineering or architectural firm (which may be an individual or an engineering or architectural firm retained by the Borrowers for other purposes) selected by the Borrowers. The Consulting Architect initially means Frank Fortino, an employee of the Corporation.

“*Consulting Architect’s Certificate*” means a written opinion or report signed by the Consulting Architect.

“*Continuing Disclosure Agreement*” means the Continuing Disclosure Agreement dated as of December 1, 2020, by and among the Borrowers, the Corporation and Digital Assurance Certification LLC, as dissemination agent.

“*Corporation*” has the meaning set forth in the recitals to this Indenture.

“*Debt Service Reserve Fund*” means the Debt Service Reserve Fund created in Section 3.02 hereof.

“*Debt Service Reserve Fund Requirement*” means an amount equal to \$3,381,500, and with respect to each Series of Additional Bonds issued pursuant to the Indenture, unless otherwise provided, an amount equal to the least of (i) ten percent (10%) of the proceeds of such series of Additional Bonds determined on the basis of original principal amount (unless original issue premium or original issue discount exceeds two percent (2%) of the original principal, then determined on the basis of initial purchase price to the public), (ii) the maximum annual debt service during any year for each series of Additional Bonds, exclusive of the principal and interest due on any Additional Bonds on the final maturity date of such Bonds to the extent that the Borrowers reasonably expect that funds for such final payments will be available in any debt service reserve fund, if any, established for such Bonds, or (iii) one hundred twenty-five percent (125%) of the average annual debt service for each Series of Additional Bonds.

“*DeMedici*” means DeMedici Corporation, a Pennsylvania non-profit corporation.

“*DeMedici II*” means DeMedici Corporation II, a Pennsylvania non-profit corporation.

“*Determination of Taxability*” means a determination that the interest accrued or paid on any of the Tax-Exempt Bonds is included in gross income of the Registered Owners or former Registered Owners for federal income tax purposes, which determination shall be deemed to have been made upon the occurrence of the first to occur of the following:

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(a) the day on which the Authority or the Borrower is advised in writing by the Internal Revenue Service that the interest on the Tax-Exempt Bonds is not excludable from gross income of any Registered Owner or former Registered Owner thereof for federal income tax purposes;

(b) the day on which the Authority or the Borrowers receives notice from the Trustee in writing that the Trustee has received (1) from any Registered Owner or former Registered Owner a copy of an Internal Revenue Service notice to such Registered Owner or former Registered Owner to the effect that interest on the Tax-Exempt Bonds received by such Registered Owner or former Registered Owner is not excludable from gross income of such Registered Owner or former Registered Owner for federal income tax purposes, or (2) an Opinion of Bond Counsel to the effect that (x) interest on the Tax-Exempt Bonds is not excludable from gross income for federal income tax purposes, (y) such interest would not be so excludable from gross income absent a redemption of all or part of the Tax-Exempt Bonds, or (z) that the Tax-Exempt Bonds or any of them must be redeemed under the terms of a closing agreement or similar agreement between the Authority and the Internal Revenue Service;

(c) the day on which the Authority or the Borrowers is advised in writing by Bond Counsel that interest on the Tax-Exempt Bonds is includable in the gross income of any Registered Owner or former Registered Owner thereof for federal income tax purposes;

provided, however, no Determination of Taxability shall occur under subparagraphs (a), (b) and (c) of this paragraph unless the Authority or the Borrowers has been afforded the opportunity to contest any such advisement, notice of deficiency, ruling or other conclusion and such contest by the Authority or the Borrowers, if made, has been finally determined (with no further right of appeal) adversely to the Authority or the Borrowers.

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

“DTC Participants” means those broker-dealers, banks and other financial institutions from time to time for which DTC holds bonds as securities depository.

“Facility” or “Facilities” has the meaning set forth in the recitals to this Indenture.

“Funds” means, collectively, the Revenue Fund, the Bond Interest Fund, the Bond Principal Fund, the Debt Service Reserve Fund, the Issuance Expense Fund, the Project Fund, the Rebate Fund and the Capital Maintenance Fund.

“Government Obligations” means (a) State and Local Government Series securities issued by the United States Treasury (“SLGS”); (b) United States Treasury bills, notes and bonds, as traded on the open market; and (c) Zero Coupon United States Treasury Bonds.

“Interest Payment Date” means each June 15 and December 15, commencing June 15, 2021.

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the two highest short-term rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any rating agency, and which mature or are subject to withdrawal not more than 360 days after the date of purchase; and

(i) investments in a money market fund, which may be funds of the Trustee or its affiliates, rated at the time of purchase in one of the two highest rating categories for this type of investment by any rating agency, including the First American Money Market Mutual Funds or any other mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder, servicing agent and/or custodian or subcustodian; notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates.

“Issuance Expense Fund” means the Issuance Expense Fund created in Section 3.02 hereof.

“Issuance Expense Fund Initial Deposit” means an amount equal to \$564,500.00 which amount represents the total costs of issuance for the Series 2020 Bonds less an underwriter’s discount.

“Lease” or “Leases” has the meaning set forth in the recitals to this Indenture.

“Master Indenture” has the meaning set forth in the recitals to this Indenture.

“Master Trustee” has the meaning set forth in the recitals to this Indenture.

“Monthly Capital Maintenance Fund Contribution” means \$10,000.

“Monthly Disbursement Date” for each calendar month means the date that is one Business Day after School District Payments for such calendar month become available for disbursement by the Trustee.

“Mortgages” means, collectively, (i) the Open-End Mortgage, Assignment of Leases and Income, Security Agreement and Fixture Filing, dated as of December 1, 2020 but effective as of December 11, 2020, from DeMedici in favor of the Master Trustee and (ii) the Open-End Mortgage, Assignment of Leases and Income, Security Agreement and Fixture Filing, dated as of December 1, 2020 but effective as of December 11, 2020, from DeMedici II in favor of the Master Trustee, each as the same may be amended from time-to-time, and individually, each a “Mortgage.”

“Net Proceeds” means, when used with respect to any insurance payment or condemnation award, the gross proceeds thereof less the expenses (including attorneys’ fees) incurred in the collection of such gross proceeds.

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“Investment Obligations” means the following:

(a) Government Obligations;

(b) any bond, debenture, note, participation certificate or other similar obligation issued by a government sponsored agency (such as the Federal National Mortgage Association, the Federal Home Loan Bank System, the Federal Home Loan Mortgage Corporation, the Federal Farm Credit Bank or the Student Loan Marketing Association);

(c) debt obligations which are (i) issued by any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision, and (ii) at the time of purchase, rated in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any rating agency;

(d) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by a corporation which are, at the time of purchase, rated by any rating agency in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise);

(e) commercial paper which is rated at the time of purchase in one of the two highest short-term rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any rating agency, and which matures not more than 270 days after the date of purchase;

(f) investment agreements with or which is guaranteed by a financial institution whose long-term debt or claims-paying ability at the time of purchase is in one of the three highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) by any rating agency, or who shall provide collateral to the Trustee with a market value maintained at levels and upon such condition as would be acceptable to any rating agency to maintain a rating on such investment agreement in one of the three highest applicable categories;

(g) repurchase agreements with respect to and secured by Government Obligations or by obligations described in clause (b) above, which agreements may be entered into with a bank (including without limitation the Trustee), a trust company financial services firm or a broker dealer provided that (i) the Trustee or a custodial agent of the Trustee has possession of the collateral and that the collateral is free and clear of third-party claims, (ii) a master repurchase agreement or specific written repurchase agreement governs the transaction, (iii) the collateral securities are valued no less frequently than monthly, and (iv) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and accrued unpaid interest, is equal to at least 103%;

(h) United States denominated deposit accounts, certificates of deposit and banker’s acceptances of any bank, trust company, or savings and loan association, including the Trustee or its affiliates, which have a rating at the time of purchase in one of

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“Nominee” means Cede, as nominee of DTC, the initial securities depository for the Bonds, and any successor nominee of DTC, and, if another securities depository replaces DTC as securities depository hereunder, any nominee of such substitute securities depository.

“Opinion of Counsel” means an opinion in writing signed by legal counsel. Such legal counsel may be an employee of or counsel to the Borrowers.

“Original Master Indenture” has the meaning set forth in the recitals to this Indenture.

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

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

(b) Bonds for the payment or redemption of which cash funds (or securities to the extent permitted in Section 7.01 hereof) shall have been theretofore deposited with the Trustee (whether upon or prior to the maturity or redemption date of any such Bonds); provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee, shall have been filed with the Trustee;

(c) Bonds in lieu of which other Bonds have been authenticated under Section 2.05 or 2.06 hereof; and

(d) Bonds for which the conditions enumerated in Sections 5.06 and 5.07 hereof have been met.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Bonds as a securities depository.

“Person” means an individual, association, corporation, partnership, limited liability company, joint venture or a government or an agency or a political subdivision thereof or any other form of legal entity.

“Project” has the meaning set forth in the recitals to this Indenture.

“Project Fund” means the Project Fund created pursuant to Section 3.02 hereof.

“Project Fund Initial Deposit” means an amount equal to \$7,654,489.39.

“Pro Rata Portion” means when used with respect to the Bond Principal Fund or the Bond Interest Fund, the dollar amount derived by dividing the amount of principal or interest to come due on the first principal or interest payment date, respectively, by the number of monthly deposits required to be made prior to such payment date.

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"Rating Agency" means any nationally recognized securities rating service, designated by the Borrowers, with written notice to the Authority and the Trustee.

"Rebate Fund" means the Rebate Fund created pursuant to Section 3.02 hereof.

"Refunded Bonds" has the meaning set forth in the recitals to this Indenture.

"Refunded Bonds Trustee" means U.S. Bank National Association.

"Registered Owner" means the registered owner of any Bond.

"Regular Record Date" means the close of business on the first calendar day of the month containing each Interest Payment Date.

"Representation Letter" means the representation letter from the Authority to DTC, dated February 19, 2020.

"Revenue Fund" means the Revenue Fund created in Section 3.02 hereof.

"Revenues" means all payments received by the Trustee for the account of the Authority pursuant to the Agreement and this Indenture.

"School District" means the School District of Philadelphia.

"School District Payments" means any and all payments made to or on behalf of the Corporation, by the Commonwealth or the School District, which unless otherwise directed by the Corporation in writing, are permitted to be used as Gross Revenues (as defined in the Leases) of the Corporation, as the same may be amended, modified or replaced.

"Series 2020 Bonds" means, the Authority's Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project) Series 2020 in the original aggregate principal amount of \$52,405,000.

"Special Record Date" means a special record date, which shall be a Business Day, fixed to determine the names and addresses of owners for purposes of paying interest on a special Interest Payment Date for the payment of defaulted interest, all as further provided in Section 2.03 hereof.

"Supplemental Master Indenture" has the meaning set forth in the recitals to this Indenture.

"Tax Certificate" means the Tax Certificate dated December 11, 2020, delivered by the Authority, the Borrowers and the Corporation in connection with the initial issuance and delivery of the Series 2020 Bonds.

"Tax-Exempt Bonds" means any Bonds the interest on which is excluded from gross income of the holders thereof for federal income tax purposes.

"Trust Estate" means the property pledged, assigned and mortgaged to the Trustee pursuant to the granting clauses hereof.

"Trustee" has the meaning set forth in the recitals to this Indenture.

"Underwriter" means Trust Securities, Inc., its successors and assigns, or such other underwriter as is approved by the Authority.

Section 1.02 Indenture to Constitute Contract. In consideration of the purchase and acceptance of any or all of the Bonds by those who shall own the same from time to time, the provisions of this Indenture shall be part of the contract of the Authority with the Registered Owners of the Bonds, and shall be deemed to be and shall constitute contracts among the Authority, the Trustee and the Registered Owners from time to time of the Bonds. The pledge made in this Indenture and the provisions, covenants and agreements herein set forth to be performed by or on behalf of the Authority shall be for the equal benefit, protection and security of the Registered Owners of any and all of the Bonds except as otherwise provided in Article VII hereof or with respect to moneys otherwise held to redeem or pay particular Bonds hereunder. All of the Bonds, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof, except as expressly provided in or pursuant to this Indenture.

Section 1.03 Notices to Trustee. Whether or not so expressly stated herein or in any of the other Bond Documents, all directions, consents, orders, requisitions, approvals, certifications and like communications given to the Trustee must be in writing and the Trustee shall have no obligation to take action or refrain from taking action based upon any oral communication.

Section 1.04 Obligations of each Borrower; Borrowers' Administrative Agent. Any obligation herein expressed as that of the Borrowers shall be construed as a joint and several obligation of each Borrower. If any provision hereof creating a joint obligation of each Borrower is held ineffective for that purpose, such provision shall be construed as creating a separate obligation of each Borrower, and if any provision hereof creating (or construed as creating) a separate obligation of each Borrower is held ineffective as to one of them, such determination shall not affect the obligation of the other Borrower. Any obligation of a Borrower hereunder may be performed by the other Borrower, but such action shall not affect any other obligation of a Borrower. No obligation of a Borrower hereunder shall be diminished by any allocation of responsibility between the Borrowers without the concurrence of the other parties hereto. No extension, release, waiver or other indulgence with respect to one Borrower's performance of an obligation hereunder shall diminish the other Borrower's responsibility to perform that obligation.

The Borrowers' Administrative Agent is hereby authorized to serve as the representative of, and to act on behalf of each Borrower for all purposes of this Indenture, unless the context clearly requires otherwise. The Trustee and the Authority are hereby entitled and authorized to give notices and directions to, and authorized to receive notices, approvals, consents and direction from, and otherwise to deal solely with, the Borrowers' Administrative Agent on behalf of each Borrower under this Indenture, unless the context clearly requires otherwise.

ARTICLE II AUTHORIZATION, TERMS, EXECUTION AND ISSUANCE OF BONDS

Section 2.01 Authorized Amount of Bonds. No Bonds may be issued under this Indenture except in accordance with this Article. The total principal amount of the Series 2020 Bonds that may be issued hereunder is hereby expressly limited to \$52,405,000 except as provided in Sections 2.05 and 2.06 hereof.

Section 2.02 All Bonds Equally and Ratably Secured by Trust Estate; Limited Obligation of Bonds and Pledges Securing the Same. Except as provided herein, all Bonds issued under this Indenture and at any time Outstanding shall in all respects be equally and ratably secured hereby, without preference, priority or distinction on account of the date or dates or the actual time or times of the issue or maturity of the Bonds, so that all Bonds at any time issued and Outstanding hereunder shall have the same right, lien and preference under and by virtue of this Indenture, and shall all be equally and ratably secured hereby.

THE BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, AND THE SERIES 2020 BONDS AND THE INTEREST THEREON AND REDEMPTION PREMIUM, IF ANY, SHALL NOT BE DEEMED TO CONSTITUTE OR CREATE AN INDEBTEDNESS, LIABILITY OR OBLIGATION OF THE AUTHORITY, THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF WITHIN THE MEANING OF ANY COMMONWEALTH CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION OR A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY SUCH POLITICAL SUBDIVISION OR AGENCY. THE BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM AND SECURED BY THE TRUST ESTATE, ALL AS DESCRIBED IN AND SUBJECT TO LIMITATIONS SET FORTH IN THIS INDENTURE, FOR THE EQUAL AND RATABLE BENEFIT OF THE HOLDERS, FROM TIME TO TIME, OF THE BONDS.

Section 2.03 Authorization of Series 2020 Bonds. There is hereby authorized to be issued hereunder and secured hereby an issue of bonds designated as the "Philadelphia Authority for Industrial Development Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project) Series 2020" in the aggregate principal amount of \$52,405,000. The Bonds shall be issuable as fully registered bonds in the Authorized Denominations. The Bonds shall be numbered separately and lettered, if at all, in each manner as the Trustee shall determine.

The Series 2020 Bonds shall be dated December 11, 2020. The Series 2020 Bonds shall bear interest on the basis of a 360-day year, consisting of twelve 30-day months, from their date until payment of principal has been made or provided for, payable on each Interest Payment Date, except that Series 2020 Bonds which are reissued upon transfer, exchange or other replacement shall bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for, or if no interest has been paid, from the date of the Series 2020 Bonds.

Maturity Date (June 15)	Principal Amount	Coupon
2021	\$ 400,000	4.00%
2022	795,000	4.00
2023	825,000	4.00
2024	860,000	5.00
2025	905,000	5.00
2026	950,000	5.00
2027	995,000	5.00
2028	1,045,000	5.00
2029	1,100,000	5.00
2030	1,155,000	5.00

The Series 2020 Bonds maturing on June 15, 2040 shall bear interest at the per annum interest rate of 5.00%.

The Series 2020 Bonds maturing on June 15, 2050 shall bear interest at the per annum interest rate of 5.00%.

The principal of and premium, if any, on the Bonds shall be payable in lawful money of the United States of America at such office of the Trustee as it shall designate, or at the designated office of its successor in trust, upon presentation and surrender of the Bonds. Payment of interest on any Bond shall be made to the Registered Owner thereof by check or draft mailed on each Interest Payment Date by the Trustee to the Registered Owner at his or her address as it last appears on the registration records kept by the Trustee at the close of business on the Regular Record Date for such Interest Payment Date (except that the Registered Owners of at least \$1,000,000 in aggregate principal amount of Bonds Outstanding may, by written request received at least 10 Business Days prior to the Regular Record Date, receive payment of interest by wire transfer at the address specified in such request, which address must be in the United States of America), but any such interest not so timely paid or duly provided for shall cease to be payable to the Registered Owner thereof at the close of business on the Regular Record Date and shall be payable to the Registered Owner thereof at the close of business on a Special Record Date for the payment of any such defaulted interest. Such Special Record Date shall be fixed by the Trustee whenever moneys become available for payment of the defaulted interest, and notice of such Special Record Date shall be given to the Registered Owners of the Bonds not less than 10 days prior thereto by first-class mail to each such owner as shown on the registration records on the date selected by the Trustee stating the date of the Special Record Date and the date fixed for the payment of such defaulted interest. All such payments shall be made in lawful money of the United States of America.

The Series 2020 Bonds are subject to the sinking fund redemption provisions of Section 5.04 hereof. The Series 2020 Bonds are otherwise subject to prior redemption as herein set forth. The Series 2020 Bonds shall be substantially in the form and tenor set forth as Exhibit A hereto with such appropriate variations, omissions and insertions as are permitted or required by this Indenture.

Section 2.04 Execution of Bonds. The Bonds shall be executed in the name and on behalf of the Authority by the manual or facsimile signature of the Chair or Vice-Chair of the Authority and its corporate seal or a facsimile thereof shall be thereunto affixed, imprinted, engraved or otherwise reproduced thereon and attested by the manual or facsimile signature of the Secretary, or any Assistant Secretary of the Authority. Any Bond may be signed (manually or by facsimile), sealed or attested on behalf of the Authority by any person who, at the date of such act, shall hold the proper office, notwithstanding that at the date of authentication, issuance or delivery, such person may have ceased to hold such office.

Section 2.05 Registration, Transfer and Exchange of Bonds; Persons Treated as Registered Owners. The Authority shall cause books for the registration and for the transfer of the Bonds as provided in this Indenture to be kept by the Trustee. Upon surrender for transfer of any Bond at the designated corporate trust office of the Trustee duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner or his attorney duly authorized in writing, the Authority shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees a new Bond or Bonds for a like series and aggregate principal amount of the same maturity.

The Bonds may be exchanged at the designated corporate trust office of the Trustee, or at such other location as it shall designate, for a like Series and aggregate principal amount of Bonds of the same maturity and interest rate in Authorized Denominations. The Authority shall execute and the Trustee shall authenticate and deliver Bonds which the Registered Owner making the exchange is entitled to receive, bearing numbers not contemporaneously Outstanding. The execution by the Authority of any Bond of any Authorized Denomination shall constitute full and due authorization of such denomination and the Trustee shall thereby be authorized to authenticate and deliver such Bond.

The Trustee shall not be required to transfer or exchange any Bond subject to redemption during the period of five days next preceding the mailing of notice of redemption as herein provided except that Bonds not subject to redemption pursuant to Section 5.02 hereof may be transferred or exchanged during such period in the event of redemption pursuant to Section 5.02 hereof. After the giving of such notice the Trustee shall not be required to transfer or exchange any Bond, which Bond or portion thereof has been called for redemption.

As to any Bond, the person in whose name the same shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, except to the extent otherwise provided herein with respect to Regular Record Dates and Special Record Dates for the payment of interest, and payment of either principal or interest on any Bond shall be made only to or upon the written order of the Registered Owner thereof or his legal representative but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums paid.

The Trustee and the Authority shall require the payment by any Registered Owner requesting exchange or transfer of the reasonable expenses of the Authority, if any, of a reasonable transfer or exchange fee and of any tax or other governmental charge required to be paid with respect to such exchange or transfer.

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(f) Evidence of the refunding and payment in full of the Refunded Bonds.

(g) Such other documents as required by the Trustee and Bond Counsel in connection with the issuance of the Series 2020 Bonds.

Section 2.08 Authentication Certificate. The authentication certificate upon the Bonds shall be substantially in the form and tenor set forth in the form of the Bonds attached hereto. No Bond shall be secured hereby or entitled to the benefit hereof, or shall be valid or obligatory for any purpose, unless the certificate of authentication, substantially in such form, has been duly executed by the Trustee; and such certificate of the Trustee upon any Bond shall be conclusive evidence and the only competent evidence that such Bond has been authenticated and delivered hereunder. The certificate of authentication shall be deemed to have been duly executed if manually signed by an authorized signatory of the Trustee, but it shall not be necessary that the same authorized signatory sign the certificate of authentication on all of the Bonds issued hereunder.

Section 2.09 Cancellation and Destruction of Bonds. Whenever any Outstanding Bonds shall be delivered to the Trustee for the cancellation thereof pursuant to this Indenture, upon payment of the principal amount thereof or for replacement pursuant to Section 2.06 hereof, such Bonds shall be promptly cancelled and destroyed by the Trustee in accordance with the customary practices of the Trustee and applicable retention laws.

Section 2.10 Reserved.

Section 2.11 Additional Bonds. Additional Bonds secured by and payable solely from the Trust Estate may be issued at the Borrowers' request and in the Authority's sole discretion in one or more additional Series, provided the following terms and conditions have been met:

(a) the Trustee has received a certificate from the Borrowers' Administrative Agent to the effect that (i) no Event of Default (as defined therein, respectively) by the Borrowers has occurred and is continuing under the Agreement, the Leases, the Mortgages, the Continuing Disclosure Agreement, the Master Indenture or this Indenture, (ii) neither Borrower is aware of any other Events of Default (as defined therein, respectively) under the Agreement, the Leases, the Mortgages, the Continuing Disclosure Agreement, the Master Indenture or this Indenture and (iii) that the requirements for additional Indebtedness set forth in Section 4.2 of the Master Indenture have been met;

(b) the Authority and the Corporation have consented to the issuance of Additional Bonds pursuant to this Section 2.11;

(c) the Trustee has received a copy of the resolution adopted by the Authority authorizing the issuance of such Additional Bonds and the execution and delivery of a supplemental indenture, supplementing and amending this Indenture, providing the date, interest rates and maturities of such Additional Bonds, options and requirements for redemption prior to maturity with respect to such Additional Bonds, deposit of proceeds to the various funds and accounts, including the Debt Service Reserve Fund, and such other terms as may be required by reason of the foregoing and which adopts the applicable provisions of this Indenture, an agreement supplementing and amending the Agreement as

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Each Registered Owner shall agree to indemnify the Authority and the Trustee against any liability that may result from the transfer, exchange or assignment of any Series 2020 Bond in violation of any provision of this Indenture and/or applicable United States federal or state securities law.

Section 2.06 Lost, Stolen, Destroyed and Mutilated Bonds. Upon receipt by the Trustee of evidence satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Bond and, in the case of a lost, stolen or destroyed Bond, of indemnity satisfactory to the Trustee and the Authority, and upon surrender and cancellation of the Bond in accordance with the customary practices of the Trustee, if mutilated, (a) the Authority shall execute, and the Trustee shall authenticate and deliver, a new Bond of the same Series, date, maturity and Authorized Denomination in lieu of such lost, stolen, destroyed or mutilated Bond or (b) if such lost, stolen, destroyed or mutilated Bond shall have matured or have been called for redemption, in lieu of executing and delivering a new Bond as aforesaid, the Trustee may pay such Bond. Any such new Bond shall bear a number not contemporaneously Outstanding. The applicant for any such new Bond may be required to pay all expenses and charges of the Authority and of the Trustee in connection with the issuance of such Bond. All Bonds shall be held and owned upon the express condition that, to the extent permitted by law, the foregoing conditions are exclusive with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds, negotiable instruments or other securities.

Section 2.07 Delivery of Series 2020 Bonds. Upon the execution and delivery of this Indenture, the Authority shall execute and deliver to the Trustee and the Trustee shall authenticate the Series 2020 Bonds and deliver them to the initial purchasers thereof as directed by the Authority and as hereinafter in this Section provided. The Trustee shall be entitled to conclusively rely upon such direction and authorization from the Authority as to the names of the purchasers and the amount of such purchase price.

Prior to the delivery by the Trustee of any of the Series 2020 Bonds, there shall have been filed with or delivered to the Trustee the following:

(a) A resolution duly adopted by the Authority authorizing the execution and delivery of the Agreement, the Tax Certificate, and this Indenture and the issuance of the Series 2020 Bonds.

(b) A duly executed copy of this Indenture, the 2020 Note, the Tax Certificate, the Agreement, the Mortgages, the Leases, and the Continuing Disclosure Agreement.

(c) The written order of the Authority as to the delivery of the Series 2020 Bonds, signed by an Authorized Representative of the Authority.

(d) An opinion of Bond Counsel substantially to the effect that the Series 2020 Bonds constitute legal, valid and binding obligations and that interest on the Series 2020 Bonds will not be included in gross income of the Registered Owners thereof for federal income tax purposes.

(e) Mortgagee title insurance policies naming the Master Trustee as an insured party in an amount equal to the principal amount of the Series 2020 Bonds.

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well as the Mortgages and Leases, if necessary in the context of the issuance of the Additional Bonds, and a supplement to the Master Indenture authorizing the issuance of an additional Note (as defined in the Master Indenture) to evidence and secure the Borrowers' payment obligations under the supplemental Agreement;

(d) the Authority and the Trustee have received an opinion of Bond Counsel to the effect that the issuance of such Additional Bonds will not affect adversely the exclusion from gross income for federal income tax purposes of interest on any Outstanding Bonds, the interest on which is excluded from gross income for federal income tax purposes;

(e) the Trustee has received original executed counterparts of the agreement supplementing and amending the Agreement, the supplemental indenture supplementing and amending this Indenture, and the agreement supplementing and amending the Leases and the amendment supplementing and amending the Mortgages, if necessary;

(f) the Trustee has received a request and authorization to the Trustee on behalf of the Authority and signed by an Authorized Representative of the Authority to authenticate and deliver such Additional Bonds to the purchasers therein identified, upon payment to the Trustee, but for the account of the Authority, of a sum specified in such request and authorization, plus accrued interest thereon, if any, to the date of delivery;

(g) the Trustee will receive from the proceeds of the Additional Bonds or otherwise on the date of delivery of the Additional Bonds an amount equal to the additional Debt Service Reserve Fund Requirement for deposit into the Debt Service Reserve Fund;

(h) the Authority and the Trustee have received an executed opinion of Bond Counsel to the effect that (i) the Additional Bonds have been duly authorized, executed and delivered and constitute the binding special limited obligations of the Authority, enforceable in accordance with their terms, subject to normal bankruptcy exceptions, and (ii) the interest on such Additional Bonds is excluded from gross income for federal income tax purposes (unless it is intended that such interest be taxable); and

(i) the Base Rent (as defined in the Leases), as recalculated pursuant to Section 6.02(a) of the Leases, shall be equal to the amounts necessary to make the principal, premium, if any, and interest payments on the Outstanding Bonds and the Additional Bonds when due.

The provisions, covenants and agreements herein set forth to be performed by or on behalf of the Authority and in the Agreement, the Leases and the Mortgages to be performed by Borrowers shall be for the equal benefit, protection and security of the Registered Owners of any and all of the Bonds, all of which, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in this Indenture.

Section 2.12 Book-Entry System; Limited Obligation of Authority.

(a) The Bonds shall be initially issued in the form of single, certificated, fully registered Bonds for each maturity of each denominated Series. Upon initial issuance, the

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ownership of each such Bond shall be registered in the registration books kept by the Trustee in the name of Cede.

(b) With respect to Bonds registered in the name of Cede or held by a depository, neither the Authority nor the Trustee shall have any responsibility or obligation to any Participant or Beneficial Owner including, without limitation, any responsibility or obligation with respect to: (i) the accuracy of the records of the depository or any Participant concerning any ownership interest in the Bonds; (ii) the delivery to any Participant, Beneficial Owner, or person other than the Registered Owner, of any notice concerning the Bonds, including notice of redemption; or (iii) the payment to any Participant, Beneficial Owner, or person other than the Registered Owner, of the principal of, premium if any, and interest on the Bonds. The Authority and the Trustee may treat the Registered Owner of any Bond as the absolute owner of such Bond for the purpose of payment of the principal of, premium if any, and interest on such Bond, for purposes of giving notices of redemption and other matters with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay the principal of, premium if any, and interest on or in connection with the Bonds only to or upon the order of the Registered Owners, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to the payment of the same. No person, other than a Registered Owner, shall receive a certificated Bond evidencing the obligations of the Authority pursuant to this Indenture.

(c) DTC may determine to discontinue providing its service as depository with respect to the Bonds at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable law. Upon the termination of the services of DTC, a substitute depository which is willing and able to undertake the system of book-entry transfers upon reasonable and customary terms may be engaged by the Authority or, if the Authority determines in its sole and absolute discretion that it is in the best interests of the Beneficial Owners or the Authority that the Beneficial Owners should be able to obtain certificated Bonds, the Bonds shall no longer be restricted to being registered in the name of Cede or other nominee of a depository but shall be registered in whatever name or names the Beneficial Owners shall designate at that time, and fully registered Bond certificates shall be delivered to the Beneficial Owners.

(d) The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the Authority determines that:

(i) DTC is unable to discharge its responsibilities with respect to the Bonds; or

(ii) a continuation of the requirement that all of the Outstanding Bonds be registered in the registration records kept by the Trustee in the name of Cede or any other nominee of DTC, is not in the best interest of the beneficial owners of the Bonds.

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Additional Bonds or such accounts and subaccounts within the above funds in order to accomplish the purposes of this Indenture.

Section 3.03 Revenue Fund.

(a) A Revenue Fund is hereby established with the Trustee. The Trustee is hereby directed to deposit into the Revenue Fund all payments received under the 2020 Note issued by DeMedici, as Obligated Group Representative under the Master Indenture, to evidence and secure the Borrowers' payment obligations under the Agreement, which 2020 Note and the Agreement have been assigned to the Trustee as security for the payment of the Series 2020 Bonds and any other amounts required or permitted to be deposited therein pursuant to the provisions herein.

(b) All moneys held on deposit in the Revenue Fund shall be disbursed by the Trustee on each Monthly Disbursement Date in the following order of priority:

FIRST: on each Monthly Disbursement Date, commencing in the month of January 2021, to the Bond Interest Fund 1/6th of the interest which will become due on the Bonds on the next succeeding Interest Payment Date (after taking into consideration earnings previously earned and credited to the Bond Interest Fund and any other credits specified in this Indenture) so that the funds available therein are sufficient to pay interest which will become due on the Bonds on the next succeeding Interest Payment Date; provided however, in the event that the first full month following the month in which the Bonds are issued is not six months prior to the first Interest Payment Date, which is June 15, 2021 an amount equal to the Pro Rata Portion of the interest to come due on the Bonds shall be substituted for the 1/6th payments otherwise required prior to the first Interest Payment Date;

SECOND: on each Monthly Disbursement Date, commencing in the month of January 2021, to the Bond Principal Fund 1/12th of the principal which will become due on the Bonds on the next succeeding principal payment date (after taking into consideration earnings previously earned and credited to the Bonds Principal Fund and any other credits specified in this Indenture) so that the funds available therein are sufficient to pay the principal which will become due on the Bonds on the next succeeding principal payment date; provided, however, in the event that the first full month following the month in which the Series 2020 Bonds are issued is not twelve months prior to the first principal payment date, which is June 15, 2021 an amount equal to the Pro Rata Portion of the principal to come due on the Series 2020 Bonds shall be substituted for the 1/12th payments otherwise required prior to the first principal payment date;

THIRD: on each Monthly Disbursement Date, to the Debt Service Reserve Fund the amount required, if any, under Section 3.08 of this Indenture, to restore the balance therein to the Debt Service Reserve Fund Requirement;

FOURTH: at such time as may be required by Section 3.20 of this Indenture, to the Rebate Fund, the amount required to be deposited thereunder as directed by the Borrowers;

FIFTH: on each Monthly Disbursement Date, to the Capital Maintenance Fund, commencing in the month of January 2021, the Monthly Capital Maintenance Fund Contribution, if necessary, until the amount therein equals the Capital Maintenance Fund Requirement; and

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(e) Upon the termination of the services of DTC with respect to the Bonds pursuant to subsection 2.12(c) or (d) hereof, after which no substitute securities depository willing to undertake the functions of DTC hereunder can be found which, in the opinion of the Authority, is willing and able to undertake such functions upon reasonable and customary terms, the Trustee is obligated at the written direction of the Authority to deliver Bond certificates, and the Bonds shall no longer be restricted to being registered in the registration records kept by the Trustee in the name of Cede as nominee of DTC, but may be registered in whatever name or names Registered Owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Indenture.

ARTICLE III REVENUES AND FUNDS

Section 3.01 Pledge of Trust Estate. Subject only to the rights of the Authority to apply amounts under the provisions of this Article, a pledge and assignment of the Trust Estate to the extent provided herein is hereby made, and the same is pledged and assigned to secure the payment of the principal of, premium, if any, and interest on the Bonds. The pledge and assignment hereby made shall be valid and binding from and after the time of the delivery by the Trustee of the first Bond authenticated and delivered under this Indenture. The security so pledged and assigned and then or thereafter received by the Authority shall immediately be subject to the lien of such pledge and assignment and the obligation to perform the contractual provisions hereby made shall have priority over any or all other obligations and liabilities of the Authority with respect to the Trust Estate and the lien of such pledge and assignment shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof.

Section 3.02 Establishment of Funds. The Authority hereby establishes and creates the following funds, which shall be special trust funds held by the Trustee:

- (a) Revenue Fund.
- (b) Bond Principal Fund.
- (c) Bond Interest Fund.
- (d) Debt Service Reserve Fund.
- (e) Project Fund.
- (f) Issuance Expense Fund.
- (g) Capital Maintenance Fund.
- (h) Rebate Fund.

The Trustee shall apply the proceeds of the Series 2020 Bonds in the manner set forth in Section 4.01 of the Agreement. The Trustee is hereby authorized, at the written direction or the Authority, to create such other Funds in any Supplemental Indenture related to the issuance of

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SIXTH: provided the Trustee has not received written notice that any Event of Default has occurred and is continuing hereunder, all amounts remaining on deposit in the Revenue Fund after the Trustee has made the disbursements required in FIRST through FIFTH above, shall be transferred to the Corporation pursuant to written instructions provided by or on behalf of the Borrowers to the Trustee.

If moneys held in the Revenue Fund are inadequate to complete the transfers described above on a Monthly Disbursement Date, the unfunded amounts shall be added to the amounts to be transferred as described above on the next Monthly Disbursement Date.

(c) If the Trustee does not receive payments under the Loan Agreement or the 2020 Note by the 10th day of each month, the Trustee will immediately notify the Issuer, the Borrowers and the Corporation of such nonpayment.

(d) Payment of any and all management fees due and owing to any third-party management company will be subordinate to the payment of debt service on the Bonds, and shall be paid by the Corporation to such management company in accordance with Section 3.03(b) SIXTH.

Section 3.04 Reserved.

Section 3.05 Payments into the Bond Principal Fund and the Bond Interest Fund. There shall be deposited into the Bond Principal Fund or the Bond Interest Fund, as appropriate, as and when received (a) all moneys transferred to the Bond Principal Fund or Bond Interest Fund pursuant to Sections 3.03, 3.08, 3.15 or 6.03 hereof, (b) all other moneys deposited into the Bond Principal Fund or Bond Interest Fund pursuant to the Agreement, the 2020 Note or this Indenture, (c) all other payments by Borrowers pursuant to Section 5.02 of the Agreement, and (d) all other moneys received by the Trustee when accompanied by directions not inconsistent with the Agreement or this Indenture that such moneys are to be paid into the Bond Principal Fund or Bond Interest Fund. There shall also be retained in the Bond Principal Fund and Bond Interest Fund, respectively, interest and other income received on investment of moneys in the Bond Principal Fund and Bond Interest Fund to the extent provided in Section 6.03 hereof. If the Trustee does not receive payments into the Bond Principal Fund and the Bond Interest Fund pursuant to Section 3.03 of this Indenture and Section 5.02(a) of the Agreement by the fifteenth day (15th) of the month, the Trustee will promptly notify the Authority, the Borrowers and the Corporation of such nonpayment.

Section 3.06 Use of Moneys in the Bond Principal Fund and the Bond Interest Fund. Any accrued or capitalized interest deposited into the Bond Interest Fund pursuant to the first sentence of Section 3.05 hereof shall be used to pay interest on the Bonds. Except as provided in this Section and in Sections 3.20, 3.25, 6.03 and 8.05 hereof, moneys in the Bond Principal Fund shall be used, subject to the provisions of this Section, solely for the payment of the principal of and premium, if any, on the Bonds, and moneys in the Bond Interest Fund shall be used, subject to the provisions of this Section, solely for the payment or the interest on the Bonds. Whenever the total amount in the Bond Principal Fund, the Bond Interest Fund and the Debt Service Reserve Fund is sufficient to redeem all of the Bonds Outstanding and to pay interest to accrue thereon prior to such redemption, and redemption premium, if any, the Trustee, subject to the requirements

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of the Agreement and written direction from Borrowers, covenants to take and cause to be taken the necessary steps to redeem all of the Bonds on the redemption date for which the required redemption notice has been given. Any amounts not necessary to meet the monthly Loan Payments which remain in either the Bond Principal Fund or the Bond Interest Fund following payment on the payment dates of the principal of, premium, if any, and interest due on the Bonds shall remain in such fund and the Borrowers shall receive a credit of such amount against future Loan Payments.

Section 3.07 Custody of the Bond Principal Fund and the Bond Interest Fund. The Bond Principal Fund and the Bond Interest Fund shall be in the custody of the Trustee, but in the name of the Authority, and the Authority authorizes and directs the Trustee to withdraw sufficient funds from the Bond Principal Fund to pay the principal of and premium, if any, on the Bonds as the same become due and payable, and to withdraw sufficient funds from the Bond Interest Fund to pay the interest on the Bonds as the same becomes due and payable.

Section 3.08 Payments into the Debt Service Reserve Fund. There shall be deposited into the Debt Service Reserve Fund pursuant to Section 4.01 of the Agreement proceeds from the sale of the Series 2020 Bonds an amount equal to the Debt Service Reserve Fund Requirement. There shall be deposited into the Debt Service Reserve Fund all moneys required to be paid by Borrowers to the Trustee pursuant to Section 3.03 of this Indenture and Section 5.02(b) of the Agreement. In addition, there shall also be deposited into the Debt Service Reserve Fund (a) all moneys transferred to the Debt Service Reserve Fund from the Bond Principal Fund or the Bond Interest Fund pursuant to Section 6.03 hereof, (b) all other moneys required to be deposited therein pursuant to the Agreement or this Indenture, and (c) all other moneys received by the Trustee when accompanied by directions not inconsistent with the Agreement or this Indenture that such moneys are to be paid into the Debt Service Reserve Fund. There also shall be retained in the Debt Service Reserve Fund interest and other income received on investments of Debt Service Reserve Fund moneys to the extent provided in Section 6.03 hereof.

Section 3.09 Use of Moneys in the Debt Service Reserve Fund. Except as provided in Sections 3.20 and 3.25 hereof, moneys in the Debt Service Reserve Fund shall be used by the Trustee promptly and solely for the payment of the principal of, premium, if any, and interest on the Series 2020 Bonds in the event moneys in the Bond Principal Fund and Bond Interest Fund are insufficient to make such payments when due, whether on an Interest Payment Date, sinking fund redemption date, maturity date or otherwise in an amount necessary to cure such Event of Default and notwithstanding any other provision of this Indenture. Upon the occurrence and continuance of an Event of Default hereunder and the exercise by the Trustee of the remedy specified in Section 12.02(a) of the Agreement and under Section 8.02(a) hereof, 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 Section 8.05 hereof. On the final maturity date of the Series 2020 Bonds any moneys in the Debt Service Reserve Fund may be used to pay the principal of and interest on the Series 2020 Bonds on such final maturity date. In the event of the redemption of the Series 2020 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 Series 2020 Bonds. The Trustee shall value the Investment Obligations in the Debt Service Reserve Fund semiannually on the last Business Day of each June and December of each year at their market value. If on any valuation date the amount in the Debt Service Reserve

Fund (determined pursuant to this Section) is greater than the Debt Service Reserve Fund Requirement, such excess shall be transferred by the Trustee to the Bond Interest Fund and applied to the payment of the interest on the Series 2020 Bonds; provided, however, that the amount remaining in the Debt Service Reserve Fund (determined pursuant to this Section) immediately after such transfer shall not be less than the Debt Service Reserve Fund Requirement on that date. If on any valuation date the amount in the Debt Service Reserve Fund (determined pursuant to this Section) is less than the Debt Service Reserve Fund Requirement, the Trustee shall notify Borrowers of its obligation pursuant to Section 5.02(b) of the Agreement.

At such time as moneys are to be transferred out of the Debt Service Reserve Fund for deposit into the Bond Principal Fund or the Bond Interest Fund pursuant to this Section or to the Rebate Fund pursuant to Section 3.20 hereof, the Trustee shall use cash or Investment Obligations in such order of priority as the Borrowers shall direct in writing. If no direction from the Borrowers has been received, the Trustee shall first use cash equivalents and second liquidate other Investment Obligations in the Debt Service Reserve Fund in such manner as the Trustee shall determine in its sole discretion.

Within five Business Days of any transfer of funds from the Debt Service Reserve Fund, as described in this Section 3.09, to the Bond Principal Fund or the Bond Interest Fund, the Trustee shall notify Borrowers in writing 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.

Section 3.10 Custody of the Debt Service Reserve Fund. The Debt Service Reserve Fund shall be in the custody of the Trustee, but in the name of the Authority, and the Authority hereby authorizes and directs the Trustee to withdraw sufficient funds from the Debt Service Reserve Fund to pay the principal of, premium, if any, and interest on the Series 2020 Bonds and for the purpose described in Section 3.09 hereof, which authorization and direction the Trustee hereby accepts. In the event there shall be a deficiency in the Bond Principal Fund or the Bond Interest Fund on any payment date for the Series 2020 Bonds, the Trustee shall promptly make up such deficiency from the Debt Service Reserve Fund so that the amount therein is equal to such deficiency.

Section 3.11 Replenishment of the Debt Service Reserve Fund. There shall be paid to the Trustee for deposit in the Debt Service Reserve Fund in the event that the sum of moneys in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement in not more than six (6) consecutive equal monthly payments beginning in the month following the date on which such deficiency occurs and monthly thereafter, money in the aggregate amount sufficient to cause the total amount in the Debt Service Reserve Fund to equal the Debt Service Reserve Fund Requirement. The reduction of the balance in the Debt Service Reserve Fund below the Debt Service Reserve Fund Requirement shall not constitute a default if and only if there shall be paid monthly to the Trustee for deposit in the Debt Service Reserve Fund at least one-sixth (1/6) of the deficiency, until the Debt Service Reserve Fund Requirement is restored.

Section 3.12 Reserved.

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Section 3.13 Payment into and Use of Moneys in the Project Fund. There shall be deposited into the Project Fund from the Series 2020 Bond proceeds, pursuant to Section 4.01 of the Agreement, an amount equal to the Project Fund Initial Deposit.

The Project Fund shall be in the custody of the Trustee, but in the name of the Authority, and the Authority authorizes and directs the Trustee to withdraw sufficient funds from the Project Fund upon receipt of requisitions from the Borrowers for the purposes set forth in Section 4.03 of the Agreement, which authorization and direction the Trustee hereby accepts. The Trustee may conclusively rely on the information provided in the requisitions and shall have no obligation to independently verify the same.

Section 3.14 Payments into and Use of Moneys in the Issuance Expense Fund. There shall be deposited into the Issuance Expense Fund from the Series 2020 Bond proceeds, pursuant to Section 4.01 of the Agreement, an amount which shall not be less than the Issuance Expense Fund Initial Deposit. There shall also be retained in the Issuance Expense Fund interest and other income received on investments of Issuance Expense Fund moneys as provided in Section 6.03 hereof. Except as provided in Sections 3.15 and 3.20 hereof, such moneys shall be expended to pay issuance expenses in accordance with the provisions of Section 4.04 of the Agreement; provided however, amounts necessary to pay for invoiced fees of Bond Counsel, the Authority and the Trustee may be paid by the Trustee without additional documentation. The Trustee is hereby authorized and directed to issue its checks on or make wire payments from the Issuance Expense Fund for each payment in accordance with Section 4.04 of the Agreement upon written direction of the Borrowers. The Trustee may conclusively rely on such written direction and shall have no obligation to independently verify the same.

The Trustee shall keep and maintain records pertaining to the Issuance Expense Fund and all payments therefrom in accordance with its customary policy and practice, which shall be open to inspection by Borrowers or its duly authorized agents during normal business hours of the Trustee upon prior written request. After all expenses incurred in connection with the issuance of the Series 2020 Bonds have been paid, the Trustee shall file a statement of income in the form of its customary trust statement and disbursements with respect thereto with Borrowers and the Authority.

Section 3.15 Termination of Issuance Expense Fund. No later than ninety (90) days after delivery of the Series 2020 Bonds any moneys remaining in the Issuance Expense Fund shall be transferred to the Bond Interest Fund and the Issuance Expense Fund shall be closed unless the Borrowers have advised the Trustee of any expenses which have not been paid.

Section 3.16 Custody of the Issuance Expense Fund. The Issuance Expense Fund shall be in the custody of the Trustee, but in the name of the Authority, and the Authority authorizes and directs the Trustee to withdraw sufficient funds from the Issuance Expense Fund for the purposes set forth in Section 4.04 of the Agreement and Section 3.14 hereof, which authorization and direction the Trustee hereby accepts.

Section 3.17 Payments into the Capital Maintenance Fund. There shall be deposited into the Capital Maintenance Fund as and when received (a) all payments by the Borrowers pursuant to Section 3.03 of this Indenture and Section 5.02(g) of the Agreement, (b) all

other moneys deposited into the Capital Maintenance Fund pursuant to the Agreement or this Indenture, and (c) all other moneys received by the Trustee when accompanied by directions not inconsistent with the Agreement or this Indenture that such moneys are to be paid into the Capital Maintenance Fund. There shall also be retained in the Capital Maintenance Fund, interest and other income received on investment of moneys in the Capital Maintenance Fund to the extent provided in Section 6.03 hereof. If the Trustee does not receive payments into the Bond Principal Fund and the Bond Interest Fund pursuant to Section 3.03 of this Indenture and Section 5.02(g) of the Agreement by the fifteenth (15th) of the month, the Trustee will promptly notify the Authority, the Borrowers and the Corporation of such nonpayment, and if such payments are not received within two (2) Business Days thereafter, the Trustee shall notify the Registered Owners of the Bonds. Any amounts on deposit in the Capital Maintenance Fund in excess of the Capital Maintenance Fund Requirement shall be transferred by the Trustee to the Bond Interest Fund and applied to the payment of the interest on the Bonds; provided, however, that the amount remaining in the Capital Maintenance Fund immediately after such transfer shall not be less than the Capital Maintenance Fund Requirement.

Section 3.18 Use of Moneys in the Capital Maintenance Fund. Absent the continuance of an Event of Default hereunder or the Agreement, beyond any notice and applicable grace period, the Trustee is hereby authorized and directed to make each disbursement from the Capital Maintenance Fund required by the provisions of Section 4.05 of the Agreement and to issue its checks therefor upon written direction of the Borrowers. The Trustee may conclusively rely on such written direction and shall have no obligation to independently verify the same. The Trustee shall keep and maintain records pertaining to the Capital Maintenance Fund and all disbursements therefrom in accordance with its customary policy and practice and shall annually provide an account statement thereof with the Authority and Borrowers.

Section 3.19 Custody of the Capital Maintenance Fund. The Capital Maintenance Fund shall be in the custody of the Trustee, but in the name of the Authority, and the Authority authorizes and directs the Trustee to withdraw sufficient funds from the Capital Maintenance Fund for the purposes authorized in Section 3.18 hereof.

Section 3.20 Rebate Fund. There shall be deposited into the Rebate Fund, investment income on moneys in the Funds to the extent provided in the written direction of Borrowers pursuant to Section 4.07 of the Agreement and subject to the limitations in Section 6.03 hereof, moneys received from Borrowers pursuant to Section 3.03 of this Indenture and Section 5.02(b) of the Agreement, moneys transferred to the Rebate Fund from the Issuance Expense Fund, the Debt Service Reserve Fund, the Project Fund, the Bond Principal Fund or the Bond Interest Fund pursuant to the provisions of this Section and all other moneys received by the Trustee when accompanied by written directions not inconsistent with the Agreement or this Indenture 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 set forth in Borrowers' written direction pursuant to Section 4.07 of the Agreement. The Trustee shall have no obligation to pay any amounts required to be rebated pursuant to this Section and the Tax Certificate, other than from moneys held in the Rebate Fund as provided in this Indenture.

If thirty (30) days after receipt of the certification pursuant to Section 4.07 of the Agreement, the moneys on deposit in the Rebate Fund are insufficient for the purposes thereof,

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notwithstanding Section 6.03 hereof, the Trustee shall transfer moneys to the Rebate Fund from the following Funds in the following order of priority; the Debt Service Reserve Fund, the Project Fund, the Bond Principal Fund and the Bond Interest Fund. The Trustee shall provide notice to the Authority if the certificate referred to in Section 4.07 of the Agreement is not received by the Trustee as provided in Section 4.07 of the Agreement. Upon receipt by the Trustee and the Authority of written certification by a rebate analyst acceptable to the Authority to the effect that the amount in the Rebate Fund is in excess of the amount required to be therein, such excess shall be transferred to the Bond Interest Fund.

Section 3.21 Custody of the Rebate Fund. The Rebate Fund shall be in the custody of the Trustee, but in the name of the Authority, and the Authority authorizes and directs the Trustee to withdraw funds from the Rebate Fund for the purposes set forth in Section 3.20 hereof, which authorization and direction the Trustee hereby accepts.

Section 3.22 Nonpresentment of Bonds. In the event any Bonds, or portions thereof, shall not be presented for payment when the principal thereof becomes due, either at maturity, the date fixed for redemption thereof, or otherwise, if funds sufficient for the payment thereof including accrued interest thereon, shall have been deposited into the Bond Principal Fund and Bond Interest Fund or otherwise made available to the Trustee for deposit therein, then on and after the date said principal becomes due, all interest thereon shall cease to accrue and all liability of the Authority to the Registered Owner or Registered Owners thereof for the payment of such Bonds, shall forthwith cease, terminate and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such fund or funds in a separate trust account for the benefit of the Registered Owner or Registered Owners of such Bonds, who shall thereafter be restricted exclusively to such fund or funds for any claim of whatever nature on his, her or their part under this Indenture with respect to said Bond or on, or with respect to, said Bond. Such moneys shall not be required to be invested during such period by the Trustee. If any Bond shall not be presented for payment within the period of three years following the date when such Bond becomes due, whether by maturity or otherwise, the Trustee shall return to Borrowers the funds theretofore held by it for payment of such Bond and such Bond shall, subject to the defense of any applicable statute of limitation, thereafter be an unsecured obligation of Borrowers. The obligations of the Trustee under this Section shall be subject, however, to any law applicable to the unclaimed funds or the Trustee providing other requirements for the disposition of unclaimed property.

Section 3.23 Moneys to be Held in Trust. All moneys required to be deposited with or paid to the Trustee under any provision of this Indenture shall be held by the Trustee in trust for the purposes specified in this Indenture, and, except for moneys deposited with or paid to the Trustee for the payment or redemption of specific Bonds and moneys held by the Trustee in the Rebate Fund and in the separate trust accounts pursuant to Section 3.22, while held by the Trustee, constitute part of the Trust Estate and be subject to the lien hereof. Moneys held in the Rebate Fund shall be held in trust by the Trustee and shall be applied as provided in Section 3.20 hereof.

Section 3.24 Reserved.

Section 3.25 Repayment to Corporation from the Funds. Any amounts remaining in the Funds after payment in full of the Bonds (or making provision for such payment), the fees, expenses and any other amounts owing to the Trustee, and all other amounts required to be paid

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Section 4.05 Rights Under the Agreement. The Authority will observe all of the obligations, terms and conditions required on its part to be observed or performed under the Agreement. The Authority agrees that whenever the Agreement and the 2020 Note give the Trustee some right or privilege, or in any way attempts to confer upon the Trustee the ability for the Trustee to protect the security for payment of the Bonds, that such part of the Agreement and the 2020 Note shall be as though it were set out in this Indenture in full.

The Authority agrees that the Trustee, as assignee of the Agreement and the 2020 Note, may enforce, in its name or in the name of the Authority, all rights of the Authority and all obligations of Borrowers under and pursuant to the Agreement (subject to certain exceptions stated in the granting clauses hereof) and the 2020 Note for and on behalf of the Registered Owners, whether or not the Authority is in default hereunder.

ARTICLE V REDEMPTION OF BONDS PRIOR TO MATURITY

Section 5.01 Optional Redemption of Series 2020 Bonds. The Series 2020 Bonds are subject to redemption prior to maturity at the option of the Authority in whole or in part, on June 15, 2028, or on any date thereafter upon direction by the Borrowers and upon payment of par plus accrued interest to the date of redemption.

Section 5.02 Redemption of Series 2020 Bonds Upon Occurrence of Certain Events. The Series 2020 Bonds are also redeemable at the option and upon the written direction of Borrowers in whole at any time or in part (only Net Proceeds of insurance or a condemnation award shall be used for a partial redemption of Bonds pursuant to paragraphs (a) or (b) of this Section) on any Interest Payment Date from and to the extent of funds on deposit under this Indenture and available for this purpose at a redemption price equal to the principal amount of each Bond redeemed and accrued interest to the redemption date upon the occurrence of any of the following events:

(a) A Facility shall have been damaged or destroyed in whole or in part to such extent that, as expressed in a Consulting Architect's Certificate filed with the Trustee (i) such Facility cannot reasonably be restored within a period of six consecutive months to the condition thereof immediately preceding such damage or destruction, or (ii) a Borrower or respective its lessee are thereby prevented from carrying on its normal operations for a period of six consecutive months, or (iii) the cost of restoration thereof would exceed the Net Proceeds of insurance carried thereon pursuant to the requirements of the Master Indenture.

(b) Title to, or the temporary use of all or any substantial part of a Facility shall have been taken under the exercise of the power of eminent domain by any governmental authority, or person, firm or corporation acting under governmental authority or because of a defect in title.

(c) As a result of any changes in the Constitution of the Commonwealth or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or

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hereunder and under the Agreement to the Authority or the Trustee and all other amounts required to be paid hereunder and under the Agreement (including payments into the Rebate Fund and to the United States of America) shall be paid to the Corporation upon the expiration of the term of the Agreement.

ARTICLE IV COVENANTS OF THE AUTHORITY

Section 4.01 Performance of Covenants. The Authority covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond and in all proceedings of the Authority pertaining thereto. The Authority covenants, represents, warrants and agrees that it is duly authorized under the Constitution and laws of the Commonwealth, including particularly and without limitation the Act, to issue the Bonds and to execute this Indenture, to pledge the Trust Estate in the manner and to the extent herein set forth, that all actions on its part required for the issuance of the Bonds and the execution and delivery of this Indenture have been duly and effectively taken or will be duly taken as provided herein, and that this Indenture is a valid and enforceable instrument of the Authority and that the Bonds in the hands of the Registered Owners thereof are and will be valid and enforceable obligations of the Authority according to the terms thereof, except as the enforceability thereof may be limited by insolvency, bankruptcy, reorganization, moratorium or other laws affecting the enforcement of creditors rights generally or against public corporations such as the Authority and by the application of general principles of equity.

Section 4.02 Instruments of Further Assurance. The Authority covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, pledging and hypothecating unto the Trustee all and singular the Trust Estate to the payment of the principal of, premium, if any, and interest on the Bonds.

Section 4.03 Payment of Principal, Premium, if any, and Interest. The Authority will promptly pay or cause to be paid the principal of, premium, if any, and interest on all Bonds issued hereunder according to the terms hereof. The principal, premium, if any, and interest payments are payable solely from the Trust Estate, which is hereby specifically pledged to the payment thereof in the manner and to the extent herein specified. Nothing in the Bonds or in this Indenture shall be considered or construed as pledging any funds or assets of the Authority other than those pledged hereby or creating any liability of the Authority's directors, employees or other agents.

Section 4.04 Conditions Precedent. Upon the date of issuance of any of the Bonds, the Authority hereby covenants that all conditions, acts and things required by the Constitution or statutes of the Commonwealth or by the Act or by this Indenture to exist, to have happened, or to have been performed precedent to or in the issuance of the Bonds shall exist, have happened and have been performed.

administrative body (whether state or federal) entered after the contest thereof by a Borrower in good faith, the Agreement, the Master Indenture, a Lease or a Mortgage shall have become void or unenforceable or impossible of performance in accordance with the intent and purposes of the parties as expressed in the Agreement, or unreasonable burdens or excessive liabilities shall have been imposed on a Borrower in respect to a Facility, including, without limitation, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Agreement. Redemption pursuant to this paragraph (c) shall be in whole only.

Section 5.03 Redemption Upon a Determination of Taxability. The Series 2020 Bonds are subject to mandatory redemption as a whole at the principal amount thereof, plus accrued interest thereon to the date of redemption, plus a 3% premium, upon the occurrence of a Determination of Taxability. The redemption date shall be the earliest practicable date selected by the Borrowers, after consultation with the Trustee, but in no event later than six months following the Determination of Taxability.

Section 5.04 Sinking Fund. The Series 2020 Bonds maturing June 15, 2040 are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the redemption date. Pursuant to the provisions of the Agreement, Borrowers are required to provide funds for deposit into the Bond Principal Fund and Bond Interest Fund sufficient to redeem the following principal amounts of the Series 2020 Bonds maturing June 15, 2040 plus accrued interest thereon to the redemption date:

June 15 of the Year	Principal Amount
2031	\$1,210,000
2032	1,270,000
2033	1,335,000
2034	1,400,000
2035	1,470,000
2036	1,545,000
2037	1,620,000
2038	1,705,000
2039	1,785,000
2040*	1,875,000

*Maturity Date

The Series 2020 Bonds maturing June 15, 2050 are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the redemption date. Pursuant to the provisions of the Agreement, Borrowers are required to provide funds for deposit into the Bond Principal Fund and Bond Interest Fund sufficient to redeem the following principal amounts of the Series 2020 Bonds maturing June 15, 2050 plus accrued interest thereon to the redemption date:

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June 15 of the Year	Principal Amount
2041	\$1,970,000
2042	2,070,000
2043	2,170,000
2044	2,280,000
2045	2,395,000
2046	2,515,000
2047	2,640,000
2048	2,770,000
2049	2,910,000
2050*	6,440,000

*Maturity Date

Not more than 45 days nor less than 20 days prior to the sinking fund payment date for the Series 2020 Bonds, the Trustee is required to proceed to select for redemption (by lot in such manner as the Trustee may determine) from all Outstanding Series 2020 Bonds, a principal amount of Series 2020 Bonds equal to the aggregate principal amount of Series 2020 Bonds, redeemable with the required sinking fund payment and is required to call such Series 2020 Bonds for redemption from the sinking fund on the next June 15 and give notice of such call.

Section 5.05 Method of Selecting Bonds. In the event that less than all of the Outstanding Bonds in a Series shall be redeemed, the Bonds of such series and from each maturity will be selected by lot by the Trustee across all maturities (unless the Bonds required to be redeemed are from only one maturity), or if less than all of the Bonds of a Series in a single maturity shall be redeemed, the selection of Bonds or portions thereof to be redeemed shall be selected by lot by the Trustee (or by random drawing by DTC while the Bonds are held in book-entry form) in any manner which the Trustee deems reasonable. If Bonds of various series are to be redeemed in part, the Bonds of each Series shall be selected by lot by the Trustee.

Section 5.06 Notices of Redemption. Bonds shall be called for optional redemption by the Trustee as herein provided upon receipt by the Trustee at least 30 days prior to the redemption date of a certificate of Borrowers specifying the series and principal amount of the Bonds to be called for redemption, the applicable redemption price or prices, the provision or provisions of this Indenture pursuant to which such Bonds are to be called for redemption, provided that such certificate shall not be required with respect to a sinking fund redemption pursuant to Section 5.04 hereof and Bonds shall be called for redemption by the Trustee pursuant to such Section without the necessity of any action by Borrowers. In the case of every redemption, or in the case of any defeasance, the Trustee shall cause notice of such redemption or defeasance by mailing by first-class mail a copy of the redemption notice or defeasance notice to the Registered Owners of the Bonds designated for redemption or defeasance in whole or in part, at their addresses as the same shall last appear upon the registration records, in each case not less than 20 days prior to the redemption date or defeasance date, provided, however, that failure to give such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption or defeasance of such Bonds. Any notice of optional redemption by the Trustee may contain a statement that the redemption is conditioned upon the receipt by the Trustee of funds on or before the date fixed for

redemption sufficient to the pay the redemption price of the Bonds so called for redemption, and that if funds are not available, such optional redemption shall be cancelled by written notice to the Registered Owners of the Bonds called for redemption in the same manner as the original redemption notice was given.

Each notice of redemption shall specify the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of the Bonds to be redeemed, that interest accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date, interest thereon will cease to accrue. If less than all the Outstanding Bonds are to be redeemed, the notice of redemption shall specify the numbers of the Bonds or portions thereof to be redeemed. If less than all of the Outstanding Bonds subject to mandatory sinking fund redemption are redeemed, the Borrowers, in consultation with the Trustee, shall calculate the revised sinking fund schedule based on a pro rata share of the Bonds then Outstanding. In connection with any redemption of Bonds while in a book-entry system, such redemption will be processed in accordance with the requirements of DTC.

Section 5.07 Bonds Due and Payable on Redemption Date; Interest Ceases to Accrue. On or before the thirtieth day prior to the redemption date specified in any notice of redemption of Borrowers delivered pursuant to Section 5.06 (provided that such notice shall not be required with respect to a sinking fund redemption pursuant to Section 5.04 hereof), hereof, an amount of money sufficient to redeem all the Bonds called for redemption at the appropriate redemption price, including accrued interest to the date fixed for redemption, shall be deposited with the Trustee by Borrowers; unless a conditional notice of redemption has been provided by the Trustee as provided for in Section 5.06 above. On the redemption date the principal amount of each Bond to be redeemed, together with the accrued interest thereon to such date and redemption premium, if any, shall become due and payable; and from and after such date, notice having been given and deposit having been made in accordance with the provisions of this Article (except the last sentence of the first paragraph of Section 5.06 hereof), then, notwithstanding that any Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any of such Bonds. From and after such date of redemption (such notice having been given and such deposit having been made), the Bonds to be redeemed shall not be deemed to be Outstanding hereunder, and the Authority shall be under no further liability in respect thereof, as provided in Section 3.21 hereof.

Section 5.08 Cancellation. All Bonds which have been redeemed and all Bonds delivered to the Trustee by Borrowers for cancellation shall be cancelled by the Trustee and destroyed as provided in Section 2.09 hereof.

Section 5.09 Partial Redemption of Bonds. Upon surrender of any Bond for redemption in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Registered Owner thereof, the cost of which shall be paid by Borrowers, a new Bond or Bonds of the same Series and maturity and interest rate and of authorized denominations, in an aggregate principal amount equal to that portion of the Bond not redeemed. The Borrowers shall subscribe for new CUSIP numbers, if necessary, in connection with such partial redemption of Bonds.

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Section 5.10 No Partial Redemption in Event of Default. Notwithstanding any provisions of this Article, the Bonds shall not be subject to partial redemption pursuant to Section 5.01 hereof if an Event of Default has occurred hereunder and has not been cured or otherwise waived by the Trustee for the purpose of making any such redemption payment.

ARTICLE VI INVESTMENTS

Section 6.01 Investment of Bond Principal Fund, Bond Interest Fund, Debt Service Reserve Fund, Project Fund, Issuance Expense Fund, Capital Maintenance Fund and Rebate Fund. On written instructions signed by the Borrowers' Administrative Agent and delivered to the Trustee that designate specific investments, any moneys held as part of the Funds shall be invested by the Trustee in Investment Obligations (a) with respect to the Capital Maintenance Fund and the Issuance Expense Fund maturing in the amounts and at the times necessary to provide funds to make the payments to which such moneys are applicable as estimated by the Borrowers' Administrative Agent, (b) with respect to the Bond Principal Fund, the Bond Interest Fund, the Project Fund and the Rebate Fund maturing in the amounts and at the times necessary to provide funds to make the payments to which such moneys are applicable, and (c) with respect to the Debt Service Reserve Fund maturing at such times as determined in writing by the Borrowers' Administrative Agent. All such Investment Obligations purchased shall mature or be redeemable on a date or dates prior to the time when the moneys so invested are expected to be required for expenditure. Any written instruction hereunder shall constitute a certification by the Borrowers that such investment is a qualified Investment Obligation and is in compliance with the Tax Certificate. The Trustee may elect, but shall not be obligated, to credit the funds and accounts held by it with the moneys representing income or principal payments due on, or sales proceed due in respect of, Investment Obligations in such funds and accounts, or to credit to Investment Obligations intended to be purchased with such moneys, in each case before actually receiving the requisite moneys from the payment source, or to otherwise advance funds for account transactions. The Authority and the Borrowers each acknowledge that the legal obligation to pay the purchase price of Investment Securities arises immediately at the time of the purchase. Notwithstanding anything else in this Indenture, (i) any such crediting of funds or assets shall be provisional in nature, and the Trustee shall be authorized to reverse any such transactions or advances of funds in the event that it does not receive good funds with respect thereto, and (ii) nothing in this Indenture shall constitute a waiver of any Trustee's rights as a securities intermediary under Uniform Commercial Code §9-206.

The Trustee shall value the Investment Obligations held within the Funds on the last Business Day of each June and December, commencing December, 2020. In computing for any purpose hereunder the amount in any Fund on any date, Investment Obligations purchased shall be valued at the lesser of their market value or cost (with the exception of the Debt Service Reserve Fund, which shall be valued at its market value). The Authority and the Borrowers each acknowledge that values shall be determined in accordance with the price provided by pricing services and sources relied upon by the Trustee and the Trustee does not have any duty to independently value any asset or an obligation other than the price provided by pricing services and sources relied upon by Trustee. The Trustee shall sell and reduce to cash a sufficient portion of such investments whenever the cash balance in a Fund is insufficient for the purposes of such Fund. The Trustee shall not be responsible for any depreciation in the value of any Investment

Obligation or for any loss resulting from the sale of any Investment Obligation, and Trustee may make any and all investments permitted by the provisions of this Section through its trust or investment departments or its affiliate's investment departments.

The Trustee may conclusively rely on the direction of the Borrowers as to the permissibility and suitability of any investments made hereunder and shall have no responsibility or liability for any losses on such investments.

The Authority and the Borrowers acknowledge that regulations of the Comptroller of the Currency grant the Authority and the Borrowers the right to receive brokerage confirmations of security transactions as they occur. The Authority and the Borrowers specifically waive such right to notification to the extent permitted by law and acknowledge that they will receive periodic transaction statements that will detail all investment transactions.

The Trustee hereby agrees to retain the documentation with respect to investments or moneys in the Funds in accordance with its standard record-keeping practices.

Section 6.02 Tax Status of the Interest on the Series 2020 Bonds. The Authority hereby acknowledges that in order to insure that the tax status of the interest on the Series 2020 Bonds is not adversely affected, it has secured from Borrowers the covenant set forth in Section 4.08 of the Agreement. In addition, the Authority, to the extent of matters within its control, further covenants to take any action to maintain, or refrain from any action which would adversely affect, the treatment of the Series 2020 Bonds as obligations described in Section 103 of the Code, the interest on which is excluded from the "gross income" of the holder for purposes of federal income taxation.

Section 6.03 Allocation and Transfers of Investment Income. Any investments shall be held by or under the control of the Trustee and shall be deemed at all times a part of the Fund from which the investment was made. Any loss resulting from such investments shall be charged to such Fund. Any interest or other gain from any Fund from any investment or reinvestment pursuant to Section 6.01 hereof realized shall be retained therein or shall be allocated and transferred as follows:

(a) Any interest or other gain realized as a result of any investments or reinvestments of moneys in the Bond Principal Fund and the Bond Interest Fund shall be retained in the respective Fund unless the Debt Service Reserve Fund balance was deficient on the previous semi-annual valuation required by Section 3.09 hereof, in which case such interest or other gain shall be paid into the Debt Service Reserve Fund forthwith.

(b) Any interest or other gain realized as a result of any investments or reinvestments of moneys in the Debt Service Reserve Fund shall be credited to the Debt Service Reserve Fund if the amount therein is less than the Debt Service Reserve Fund Requirement as determined by the previous semi-annual valuation required by Section 3.09. If the amount in the Debt Service Reserve Fund is equal to or greater than the Debt Service Reserve Fund Requirement immediately subsequent to any valuation required pursuant to Section 3.09 hereof, such amount in excess of the Debt Service Reserve Fund Requirement shall be paid into the Bond Interest Fund.

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(c) Any interest or other gain realized as a result of any investments or reinvestments of moneys in the Project Fund shall be retained in the Project Fund unless the Debt Service Reserve Fund balance was deficient on the previous semi-annual valuation required by Section 3.09 hereof or following the initial issuance of the Bonds, in which case such interest or other gain shall be paid in the Debt Service Reserve Fund forthwith.

(d) Any interest or other gain realized as a result of any investments or reinvestments of moneys in the Issuance Expense Fund shall be retained in the Issuance Expense Fund.

(e) Any interest or other gain realized as a result of any investment or reinvestment of moneys in the Capital Maintenance Fund shall be retained in the Capital Maintenance Fund unless a transfer is permitted pursuant to Section 3.18 hereof.

Upon receipt by the Trustee and the Authority of written certification by a rebate analyst acceptable to the Authority to the effect that the amount in the Rebate Fund is in excess of the amount required to be therein, such excess shall be transferred to the Bond Interest Fund.

ARTICLE VII DISCHARGE OF INDENTURE

Section 7.01 Discharge of this Indenture. If, when the Bonds secured hereby shall be paid in accordance with their terms (or payment of the Bonds has been provided for in the manner set forth in the following paragraph), together with all other sums due and payable hereunder, all amounts payable to the Authority and the Trustee under the Agreement and all amounts due and payable to the United States of America pursuant to Section 148 of the Code, then this Indenture and the Trust Estate and all rights granted hereunder shall thereupon cease, terminate and become void and be discharged and satisfied. Also if all Outstanding Bonds secured hereby shall have been purchased by Borrowers and delivered to the Trustee for cancellation, and all other sums payable hereunder, all amounts payable to the Authority under the Agreement, and all amounts payable to the United States pursuant to Section 148 of the Code have been paid, or provision shall have been made for the payment of the same, then this Indenture and the Trust Estate and all rights granted hereunder shall thereupon cease, terminate and become void and be discharged and satisfied. In such events, the Trustee shall promptly turn over to the Corporation any surplus in any Fund pursuant to Section 3.25 hereof, except to the extent otherwise required by Section 4.08 of the Agreement and Section 3.21 hereof.

Payment of any Outstanding Bond shall prior to the maturity or redemption date thereof be deemed to have been provided for within the meaning and with the effect expressed in this Section if: (a) in case said Bond is to be redeemed on any date prior to its maturity, Borrowers shall have given to the Trustee in form satisfactory to it irrevocable instructions to give on a date in accordance with the provisions of Section 5.06 hereof notice of redemption of such Bond on said redemption date, such notice to be given in accordance with the provisions of Section 5.06 hereof, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations which shall not contain provisions permitting the redemption thereof at the option of the Issuer, the principal of and the interest on which when due,

and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient to pay when due the principal of and premium, if any, and interest due and to become due on said Bond on and prior to the redemption date or maturity date thereof, as the case may be, (c) there shall have been delivered to the Trustee and the Authority a certificate from a firm of certified public accountants or other financial services firm certifying as to the sufficiency of the deposit made pursuant to the preceding clause (b), (d) there shall have been delivered an opinion of nationally recognized Bond Counsel satisfactory to the Trustee and the Authority that such payment does not adversely affect the exclusion from gross income of interest on the Series 2020 Bonds and the defeasance is in accordance with the requirements of this Indenture, and (e) in the event said Bond is not by its terms subject to redemption within the next 45 days, Borrowers shall have given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to give, as soon as practicable, in the same manner as the notice of redemption is given pursuant to Section 5.06 hereof, a notice to the Authority and the Registered Owner of such Bond that the deposit required by clause (b) above has been made with the Trustee and that payment of said Bond has been provided for in accordance with this Section and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of and premium, if any, and interest on said Bond and stating whether any redemption provisions relating to the Bonds will remain in effect. Neither such securities nor moneys deposited with the Trustee pursuant to this Section or principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and premium, if any, and interest on said Bond; provided any cash received from such principal or interest payments on such securities deposited with the Trustee if not then needed for such purpose, shall, to the extent practicable, be reinvested in securities of the type described in clause (b) of this paragraph maturing at times and in amounts sufficient to pay when due the principal of and premium, if any, and interest to become due on said Bond on or prior to such redemption date or maturity date thereof, as the case may be. At such time as payment of a Bond has been provided for as aforesaid, such Bond shall no longer be secured by or entitled to the benefits of this Indenture, except for the purpose of any payment from such moneys or securities deposited with the Trustee.

The release of the obligations of the Authority and Borrowers under this Section shall be without prejudice to the right of the Trustee or the Authority to be paid reasonable compensation for all services rendered by it hereunder and all its reasonable expenses, charges and other disbursements incurred on or about the administration of the trust hereby created and the performance of its powers and duties hereunder.

Notwithstanding anything contained herein to the contrary, provision shall not be made for the payment of any Bonds if such provision would constitute an advance refunding under the Code, as amended, unless simultaneously with such provision for payment, Borrowers deliver to the Authority and the Trustee an opinion of nationally recognized Bond Counsel acceptable to the Authority and the Trustee to the effect that such provision will not adversely affect the exclusion from gross income of the interest on the Bonds.

Section 7.02 Liability of Authority Not Discharged. Upon compliance with the provisions of Section 7.01 hereof with respect to all Bonds then Outstanding, this Indenture may be discharged in accordance with the provisions of this Article but the liability of the Authority in respect of such Bonds shall continue provided that the Registered Owners thereof shall thereafter

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be entitled to payment only out of the moneys or securities deposited with the Trustee as provided in Section 7.01 hereof.

ARTICLE VIII DEFAULTS AND REMEDIES

Section 8.01 Events of Default. Each of the following is hereby defined as and shall be deemed an "Event of Default":

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

(b) default in the payment by the Authority of any installment of interest on any Bond when the same shall become due and payable;

(c) default shall be made in the observance or performance of any covenant, agreement, contract or other provision in the Bonds or this Indenture contained (other than as referred to in subsection (a) or (b) of this Section) and such default shall continue for a period of 30 days after written notice to the Authority, the Borrowers and the Trustee from the Registered Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding or to the Authority and the Borrowers from the Trustee, subject to Section 9.01(h) hereof, specifying such default and requiring the same to be remedied, provided, with respect to any such failure covered by this subsection (c), 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 and the failure shall be remedied thereby, provided however, that such course of action must be completed within 90 days after the written notice, herein specified, is delivered;

(d) the occurrence and continuing of an "Event of Default" under the Agreement as defined in Section 10.01 therein, beyond notice and any applicable grace period;

(e) if there is a default under the Master Indenture or any amendment or supplement thereto, and such default gives the Master Trustee the right to accelerate Obligations (as defined in the Master Indenture) issued thereunder; or

(f) failure to replenish the Debt Service Reserve Fund as required in accordance with Section 3.11 hereof.

The Trustee shall notify the Authority, the Borrowers and the Corporation of the occurrence of any Event of Default of which it has notice or actual knowledge (such notice or actual knowledge being determined in accordance with Section 9.01(h) hereof) as soon as practicable.

Section 8.02 Remedies on Events of Default. Subject to Section 12.06 of the Lease, upon the occurrence and continuing of an Event of Default, the Trustee shall have the following rights and remedies:

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(a) **Acceleration.** Subject to the terms of the Master Indenture, the Trustee may direct the Master Trustee to accelerate the Note and bring a suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds outstanding hereunder. The Trustee (i) may by notice in writing given to the Authority and Borrowers or (ii) shall, upon the written request of the Registered Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, declare the principal amount of all Bonds then Outstanding and the interest accrued thereon to be immediately due and payable and said principal and interest shall thereupon become immediately due and payable. Upon any declaration of acceleration hereunder, the Trustee shall immediately declare all Loan Payments under the Agreement to be immediately due and payable as provided in Section 10.02 of the Agreement.

(b) **Receivership.** Upon the filing of an action for receivership, the Trustee shall be entitled as a matter of right (on an ex parte basis and without notice) to the appointment of a receiver or receivers of the Trust Estate, and of the rents, revenues, income, products and profits thereof, pending such proceedings, but, notwithstanding the appointment of any receiver, trustee or other custodian, the Trustee shall be entitled to the possession and control of any cash, securities or other instruments held by, or payable or deliverable under the provisions of this Indenture to the Trustee.

(c) **Suit for Judgment on the Bonds.** The Trustee shall be entitled to sue for and recover judgment, either before or after or during the pendency of any proceedings for the enforcement of the lien of this Indenture, for the enforcement of any of its rights, or the rights of the Registered Owners, but any such judgment against the Authority shall be enforceable only against the Trust Estate. No recovery of any judgment by the Trustee shall in any manner or to any extent affect the lien of this Indenture or any rights, powers or remedies of the Trustee hereunder, or any liens, rights, powers or remedies of the Registered Owners of the Bonds, but such liens, rights, powers and remedies of the Trustee, and of the Registered Owners shall continue unimpaired as before. The obligations of Borrowers under the Agreement are general obligations of Borrowers.

In the event written notice is given by the Registered Owners or the Trustee under Section 8.01(c) hereof, the Trustee shall within 5 days give written notice with respect to such default to Borrowers and the Corporation.

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

If any Event of Default shall have occurred and is continuing, and if requested by the Registered Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding and indemnified as provided in Section 9.01 hereof, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Section as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Registered Owners; provided, however, the Trustee may refuse to follow any direction that it believes conflicts with applicable law or this Indenture.

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In addition to the foregoing, for purposes of voting or giving a direction under the Master Indenture as holder of the 2020 Note, the Trustee may rely on the direction from the Holders of a majority in principal amount of the Series 2020 Bonds issued under this Indenture.

Section 8.03 Direction of Remedies. Anything in this Indenture to the contrary notwithstanding, the Registered Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method, and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture, or for the appointment of a receiver, or any other proceedings or remedies hereunder provided that such direction shall not be otherwise than in accordance with the provisions hereof. The Trustee shall not be required to act on any direction given to it pursuant to this Section unless undenied as provided in Section 9.01 hereof.

Section 8.04 Rights and Remedies of Registered Owners. No Registered Owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of this Indenture or for the execution of any trust hereof or for the appointment of a receiver or any other remedy hereunder, unless a default has occurred of which the Trustee has been notified as provided in Section 9.01 hereof, or of which by Section 9.01 hereof it is deemed to have notice, nor unless such default shall have become an Event of Default and the Registered Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request to the Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, nor unless they have also offered to the Trustee indemnity as provided in Section 9.01 hereof nor unless the Trustee shall thereafter fail or refuse to exercise within a reasonable period of time (not to exceed 30 days) the powers hereinbefore granted, or to institute such action, suit or proceeding in its own name; and such notification, request, and offer of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of this Indenture, and to any action or cause of action for the enforcement of this Indenture, or for the appointment of a receiver or for any other remedy hereunder; it being understood and intended that no one or more Registered Owners of the Bonds shall have the right in any manner whatsoever to affect, disturb or prejudice the lien of this Indenture by his, her or their action or to enforce any right hereunder except in the manner herein provided and that all proceedings at law or in equity shall be instituted, had, and maintained in the manner herein provided and for the equal benefit of the Registered Owners of the Bonds then Outstanding. Nothing in this Indenture contained shall, however, affect or impair the right of any Registered Owner of Bonds to enforce the payment, by the institution of any suit, action or proceeding in equity or at law, of the principal of, premium, if any or interest on any Bond at and after the maturity thereof, or the obligation of the Authority to pay the principal of, premium, if any, and interest on each of the Bonds to the respective Registered Owners of the Bonds at the time and place, from the source and in the manner herein and in the Bonds expressed. For purposes of this Section, so long as the Bonds are held by DTC pursuant to the provisions of Section 2.12 hereof, the Trustee shall be permitted to accept direction from the beneficial owners of the Bonds, rather than the Registered Owner, upon receipt of appropriate certification (satisfactory to the Trustee) of such beneficial ownership by the Trustee.

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application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Registered Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all of the Bonds, the premium, if any, and interest thereon have been paid under the provisions of this Section and all expenses and fees of the Trustee and all other amounts to be paid to the Authority hereunder or under the Agreement have been paid, any balance remaining in the Funds shall be applied as provided in Section 3.25 hereof.

Section 8.06 Trustee May Enforce Rights Without Bonds. All rights of action and claims under this Indenture or any of the Bonds Outstanding may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or proceedings relative thereto; and any suit or proceeding instituted by the Trustee shall be brought in its name as Trustee, without the necessity of joining as plaintiffs or defendants any Registered Owners of the Bonds.

Section 8.07 Trustee to File Proofs of Claim in Receivership, Etc. In the case of any receivership, insolvency, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceedings affecting the Trust Estate or Borrowers, the Authority or the Trustee shall, to the extent permitted by law, be entitled to file such proofs of claims and other documents as may be necessary or advisable in order to have claims of the Trustee and the Authority, and of the Registered Owners allowed in such proceedings for the entire amount due and payable by the Authority under this Indenture, or by Borrowers, as the case may be, at the date of the institution of such proceedings and for any additional amounts which may become due and payable by it after such date, without prejudice, however, to the right of any Registered Owner to file a claim in his or her own behalf.

Section 8.08 Delay or Omission No Waiver. No delay or omission of the Trustee or of any Registered Owner to exercise any right or power accruing upon any default shall exhaust or impair any such right or power or shall be construed to be a waiver of any such default, or acquiescence therein; and every power and remedy given by this Indenture may be exercised from time to time and as often as may be deemed expedient.

Section 8.09 No Waiver of One Default to Affect Another. No waiver of any default hereunder, whether by the Trustee or the Registered Owners, shall extend to or affect any subsequent or any other then existing default or shall impair any rights or remedies consequent thereon.

Section 8.10 Discontinuance of Proceedings on Default; Position of Parties Restored. In case the Trustee or the Registered Owners shall have proceeded to enforce any rights under this Indenture and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee or the Registered Owners, then and in every such case the Authority, the Trustee and the Registered Owners shall be restored to their former position and rights hereunder with respect to the Trust Estate, and all rights, remedies, and

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Section 8.05 Application of Moneys. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and the fees and expenses, liabilities and advances incurred or made by the Trustee, including, without limitation, any unpaid fees or attorney fees and expenses and, if deemed appropriate by the Trustee in its discretion, a reserve with respect to reasonably anticipated future costs and expenses, be held or deposited into the Bond Principal Fund and the Bond Interest Fund during the continuance of an Event of Default and shall be applied as follows:

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

FIRST, to the payment to the Persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege.

SECOND, to the payment to the Persons entitled thereto of the unpaid principal of and premium, if any, on any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of this Indenture), in the order of their due dates and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied (i) first, to the payment of accrued and unpaid interest and (ii) second to principal then due and unpaid upon all of the Bonds, without preference or priority of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article then, subject to the provisions of paragraph (b) of this Section in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of this Section.

Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, in its reasonable discretion, having due regard to the amount of such moneys available for application the likelihood of additional moneys becoming available for such application in the future, and accounting for Section 3.09 of this Indenture regarding the use of the Debt Service Reserve Fund to cure payment defaults. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such

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powers of the Authority, the Trustee and the Registered Owners shall continue as if no such proceedings had been taken.

Section 8.11 Waivers of Events of Default. The Trustee may waive any Event of Default hereunder and its consequences and rescind any declaration of acceleration of maturity of principal of and interest on the Bonds, and shall do so upon the written request of the Registered Owners of a majority in aggregate principal amount of the Bonds then Outstanding in respect of which a default exists. In case of any such waiver or rescission, or in case any proceedings taken by the Trustee on account of any such default shall have been discontinued or abandoned or determined adversely to the Trustee, then and in every such case the Authority, the Trustee and the Registered Owners shall be restored to their former positions and rights hereunder respectively, but no such waiver or rescission shall extend to or affect any subsequent or other default, or impair any rights or remedies consequent thereon.

ARTICLE IX CONCERNING THE TRUSTEE

Section 9.01 Duties of the Trustee. The Trustee hereby accepts the trusts imposed upon it by this Indenture and agrees to perform said trusts, but only upon and subject to the following express terms and conditions, and no implied covenants or obligations shall be read into this Indenture against the Trustee:

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

(b) The Trustee may execute any of the trusts hereof or powers hereunder or any of the other Bond Documents and perform any of its duties hereunder or any of the other Bond Documents by or through attorneys, agents, receivers or employees but shall be answerable for the conduct of the same in accordance with the standards specified above and in subsection (g) of this Section, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act upon the advice of legal counsel to it or an Opinion of Counsel and shall not be responsible for any loss or damage resulting from any action or nonaction taken by or omitted to be taken in good faith in reliance upon advice or such Opinion of Counsel.

(c) The Trustee shall not be responsible for any recital herein or in the Bonds (except in respect to the certificate of authentication of the Trustee endorsed on the Bonds), or for insuring the Facilities or collecting any insurance moneys or for the validity of the execution by the Authority of this Indenture or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby, or for the recording or rerecording, filing or refiling of

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this Indenture or any security agreement in connection therewith (excluding the continuation of Uniform Commercial Code financing statements to the extent such financing statements and the filing information therefor have been provided to the Trustee in a timely manner) or for the value of or title to the Facilities, and the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the Authority, or on the part of Borrowers or the Corporation, except as hereinafter set forth; but the Trustee may require of Borrowers and the Corporation full information and advice as to the performance of the covenants, conditions, and agreements contained herein, and as to the condition of the Facilities, in the Agreement. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with Section 6.01 hereof. The Trustee shall not be responsible for any determination or calculation concerning arbitrage rebate with respect to the Bonds, or for determining if the yield on any investment made in accordance with the written instructions of the Borrowers would cause, or whether any other facts exist which would cause, any of the Bonds to become arbitrage bonds under Section 148 of the Code.

(d) The Trustee shall not be accountable for the use of any Bonds authenticated or delivered hereunder. The Trustee may become the Registered Owner or Beneficial Owner of the Bonds with the same rights which it would have if not Trustee. The Trustee shall not be accountable for the use or application by the Authority or Borrowers of the proceeds of any of the Bonds or of any money paid to or upon the order of the Authority or Borrowers or the Corporation under any provision of this Indenture. The Trustee in good faith may buy, sell, own and hold any of the Bonds and may join in any action which any Registered Owner may be entitled to take with like effect as if the Trustee were not a party to this Indenture. The Trustee also may engage in or be interested in any financial or other transaction with the Authority, the Borrowers or the Corporation, provided that if the Trustee determines that any such relation is in conflict with its duties under this Indenture, it shall eliminate the conflict or resign as Trustee. So long as no event of default has occurred and is continuing, the Trustee may be a creditor of the Authority, the Borrowers or the Corporation. The Trustee may act as depository, and permit any of its officers or directors to act as an official of, or in any other capacity with respect to, the Authority, the Borrowers or the Corporation or any committee formed to protect the rights of holders of Bonds or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Indenture, whether or not such committee shall represent the holders of a majority of the Bonds.

(e) The Trustee shall be protected in acting or refraining from acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram, facsimile transmission or other paper or document or electronic communication believed to be genuine and correct and to have been signed or sent by the proper Person or Persons. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Registered Owner of any Bonds shall be conclusive and binding upon all future owners of the same Bond and upon Bonds issued in place thereof.

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

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

(m) Notwithstanding anything herein to the contrary, before taking any action under Sections 8.02(a), (b), (c) or (d), 8.03, 8.04 or 8.11 hereof, at the direction of the Registered Owners as provided therein and other than payment of monies on deposit in any of the funds as provided for herein, the Trustee may require that indemnity satisfactory to it be furnished to it by the Registered Owners requesting the Trustee to act for the reimbursement of all expenses (including reasonable attorneys' fees and expenses) which it may incur and to protect it against all liability, except liability which may result from its gross negligence or willful misconduct, by reason of any action so taken.

(n) The Trustee shall not be required to advance any of its own funds or otherwise incur any personal financial liabilities in the performance of its obligations hereunder unless it has received assurances satisfactory to it that it will be repaid.

(o) Reserved.

(p) The Trustee shall have no duty to monitor the Authority's, the Corporation's, or the Borrowers' compliance with the terms of and makes no representations as to the validity or sufficiency of this Indenture (except as to the Trustee), the Agreement, or the Bonds, assumes no responsibility for the correctness of the same, shall incur no responsibility in respect to such validity or sufficiency, and its receipt of any report, document, policy or other certificate thereunder shall not impose a duty to review and shall not constitute constructive notice of any information contained therein or determinable from information contained therein, except as otherwise set forth in subparagraph (h) above.

(q) The Trustee shall be responsible for filing any UCC continuation or other statements with respect to each UCC filed on the date of issuance of the Bonds relating to the Trust Estate; provided that a copy of the filed initial financing statement is timely delivered to the Trustee. In addition, unless the Trustee shall have been notified in writing by the Authority that any such initial filing or description of collateral was or has become defective, the Trustee shall be fully protected in (a) relying on such initial filing and descriptions and information therein in filing any financing or continuation statements or modifications thereto pursuant to this section and (b) filing any continuation statements in the same filing offices as the initial filings were made. The Borrowers shall be responsible

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

(g) The permissive rights of the Trustee to do things enumerated in this Indenture shall not be construed as a duty, and the Trustee shall not be answerable for other than its gross negligence or willful misconduct and shall not be answerable for any negligent act of its attorneys, agents or receivers which have been selected by the Trustee with due care, subject to Section 9.01(a) hereof.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder except for the failure by the Authority to make or cause to be made any of the payments to the Trustee required to be made hereunder, or the failure by the Borrowers to make or cause to be made any of the payments to the Trustee required to be made hereunder or under the Agreement or the 2020 Note, unless an officer in the corporate trust department of the Trustee shall be specifically notified in writing of such default by the Authority, the Borrowers, the Corporation or the Registered Owners and all notices or other instruments required by this Indenture to be delivered to the Trustee, must, in order to be effective, be delivered at the address of the Trustee provided for in Section 11.07 hereof, and, in the absence of such notice so delivered, the Trustee may conclusively assume that there is no default except as aforesaid. If moneys sufficient to pay maturing principal and interest on the Bonds are not timely received by the Trustee, the Trustee covenants to give written notice of such fact to Borrowers, the Corporation, the Registered Owners and the Authority.

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

(j) At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, shall have the right, but shall not be required, to inspect any and all of the Trust Estate, including all books, papers and records of the Authority, the Corporation and the Borrowers pertaining to the Facilities, the Project and the Bonds.

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for the customary fees charged by the Trustee for the preparation and filing of continuation statements and for the reasonable costs incurred by the Trustee in the preparation and filing of all continuation statements hereunder, including attorneys' fees and expenses. These fees shall be considered "extraordinary services" fees.

(r) Reserved.

(s) The Trustee may inform the Registered Owners of environmental hazards that the Trustee has reason to believe exist, and the Trustee has the right to take no further action with respect to any real property collateral granted or assigned to Trustee and, in such event no fiduciary duty exists which imposes any obligation for the Trustee to foreclose upon, manage, maintain or operate the Facilities, if the Trustee in its individual capacity, determines that any such action would materially and adversely subject the Trustee to environmental or other liability for which the Trustee has not been adequately indemnified.

(t) Notwithstanding any other provision of this Indenture to the contrary, any provision relating to the conduct of, intended to provide authority to act, the right to payment of fees and expenses, protection, immunity and indemnification to the Trustee, shall be interpreted to include and apply to any action or omission of the Trustee, whether it be deemed to be in its capacity as Trustee, registrar, Dissemination Agent or paying agent, and shall extend to and apply to any actions or omissions of the Trustee under or with respect to the Agreement, or any other documents, instruments or agreements relating to the Bonds.

(u) The Trustee shall not be responsible for delays or failures in performance resulting from acts beyond its control, including without limitation acts of God, strikes, lockouts, riots, acts of war or terror, epidemics, governmental regulations, fire, communication line failures, computer viruses or failures, power failures (provided the Trustee instituted reasonable safeguards to protect from such computer viruses or failures), earthquakes or other disasters.

(v) The Trustee shall provide any information it receives pertaining to the Borrowers or the Corporation to the Authority upon its written request.

(w) The Trustee shall have no duty to review or analyze any financial statements or other information filed with the Trustee by any party. The Trustee shall not be deemed to have notice of any information contained therein or event of default which may be disclosed in any manner therein.

(x) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Majority Bondholders relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture, the Agreement, the 2020 Note or any other documents relating to the Bonds.

(y) The Trustee shall have the right to accept and act upon instructions or directions pursuant to this Indenture and the other Bond Documents sent in the form of a

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manually signed document by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that the Borrowers or the Corporation shall provide to the Trustee an incumbency certificate listing designated persons with the authority to provide such instructions and containing specimen signatures of such designated persons, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. The Trustee may accept documents signed by way of a digital signature from a provider of digital signature services specified in writing by an Authorized Representative to the Trustee, including initially, DocuSign. If the Borrowers or the Corporation elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding that such instructions conflict or are inconsistent with a subsequent written instruction. The Borrowers and the Corporation agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including, without limitation, the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(z) The Trustee shall have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Bonds, and the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the offering and sale of the Bonds.

Section 9.02 Fees and Expenses of Trustee. The Borrowers shall (a) pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation, and the Borrowers shall pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in connection with the acceptance or administration of its trusts under this Indenture and the other Bond Documents (including the reasonable compensation and the expenses and disbursement of its counsel and of all persons not regularly in its employ), and (b) indemnify the Trustee and its officers, directors, employees, contractors, advisors and attorneys for, and hold them harmless against, any loss, liability or expense incurred without gross negligence or willful misconduct on the part of the Trustee and arising out of or in connection with the acceptance or administration of such trusts, including the costs and expenses (including, without limitation, a reasonable compensation to its attorneys and the reasonable allocated costs and expenses of in-house counsel and legal staff) of defending against any claim of liability or loss. The obligation of the Borrowers under this Section to compensate the Trustee, to pay or reimburse the Trustee for expenses, disbursements and advances and to indemnify and hold harmless the Trustee and such other Indemnified Persons, shall survive the satisfaction and discharge of this Indenture and the other Bond Documents and shall survive the resignation or removal of the Trustee for any reason. The obligations of the Borrowers under this Section shall be a senior claim and lien to that of the holders of the Bonds upon all property held or collected by the Trustee, as such.

Section 9.03 Resignation or Replacement of Trustee. The Trustee may resign at any time without cause by giving at least thirty (30) days' prior written notice by mail to each Registered Owner of a Bond then Outstanding, as the names and addresses of such Registered

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filed and/or recorded by the successor Trustee in each recording office, if any, where this Indenture shall have been filed and/or recorded.

Section 9.04 Conversion, Consolidation or Merger of Trustee. Any bank or trust company or association into which the Trustee or its successor may be converted, merged or with which it may be consolidated, or to which it may sell or transfer its corporate trust business substantially as a whole shall be the successor of the Trustee under this Indenture with the same rights, powers, duties and obligations and subject to the same restrictions, limitations and liabilities as its predecessor, all without the execution or filing of any papers or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding. In case any of the Bonds to be issued hereunder shall have been authenticated, but not delivered, any successor Trustee may adopt the certificate of any predecessor Trustee, and deliver the same as authenticated and, in case any of such Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of such successor Trustee.

Section 9.05 Force Majeure. In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder or under any other documents relating to the Bonds arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

Section 9.06 Consequential Damages. Anything in this Indenture or the other documents relating to the Bonds notwithstanding, in no event shall the Trustee be liable for special, indirect, exemplary, incidental, punitive or consequential or other similar loss or damage of any kind whatsoever (including but not limited to loss of profit), even if the Trustee has been advised as to the likelihood or possibility of such loss or damage and regardless of the form of action.

ARTICLE X SUPPLEMENTAL INDENTURES AND AMENDMENTS OF THE AGREEMENT, MASTER INDENTURE AND MORTGAGES

Section 10.01 Supplemental Indentures Not Requiring Consent of Registered Owners. At the written direction of the Authority, the Trustee may, without the consent or, or prior notice to (but shall provide subsequent notice promptly to), the Registered Owners, enter into such indentures supplemental hereto (which supplemental indentures shall thereafter form a part hereof) for any one or more or all of the following purposes:

(a) to add to the covenants and agreements in this Indenture contained other covenants and agreements thereafter to be observed for the protection or benefit of the Registered Owners;

(b) to cure any ambiguity, or to cure, correct or supplement any defect or inconsistent provision contained in this Indenture, or to make any provisions with respect

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Owners appear on the registration books maintained by the Trustee hereunder, 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 fifty percent (50%) in aggregate principal amount of Bonds then Outstanding, delivered to the Borrowers and the Trustee, or (b) by the Authority at the direction of the Borrowers if no Event of Default then exists hereunder, such direction to be evidenced by an Officer's Certificate specifying the cause for such removal and delivered to the Trustee ninety (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 Registered Owner of a Bond then Outstanding as provided above.

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

Every successor shall always be a bank or trust company in good standing, be qualified to act hereunder, be subject to examination by a federal or state authority and have capital and surplus of not less than Seventy-Five Million Dollars (\$75,000,000). Any successor appointed hereunder shall execute, acknowledge and deliver to the Authority an instrument accepting such appointment hereunder, and thereupon such successor shall, without any further act, deed or conveyance, become vested with all the estates, properties, rights, powers and trusts of its predecessor in the trust hereunder with like effect as if originally named as Trustee herein; but the Trustee retiring shall, nevertheless, on the written demand of its successor, execute and deliver an instrument conveying and transferring to such successor, upon the trusts herein expressed, all the estates, properties, rights, powers and trusts of the predecessor, who shall duly assign, transfer and deliver to the successor all properties and moneys held by it under this Indenture. Should any instrument in writing from the Authority be reasonably required by any successor for such vesting and confirming, the Authority shall execute, acknowledge and deliver the said deeds, conveyances and instruments on the request of such successor.

The notices provided for in this Section to be given to the Registered Owners shall be given by the Trustee by mailing to the Registered Owners of the Bonds at their addresses as the same shall last appear upon the registration records. The notices provided for in this Section to be given to the Authority, Borrowers and the retiring Trustee shall be given in accordance with Section 11.07 hereof.

The instruments evidencing the resignation or removal of the Trustee and the appointment of a successor hereunder, together with all other instruments provided for in this Section, shall be

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to matters arising under this Indenture or for any other purpose if such provisions are necessary or desirable and do not materially adversely affect the interests of the Registered Owners of the Bonds;

(c) to subject to the lien of this Indenture additional revenues, properties or collateral;

(d) to modify, alter, amend or supplement this Indenture in such a manner as shall permit the qualification hereof under the Trust Indenture Act of 1939, as from time to time amended; or

(e) to provide for the issuance of Additional Bonds in accordance with Section 2.11 hereof.

Section 10.02 Supplemental Indentures Requiring Consent of Registered Owners. Exclusive of supplemental indentures covered by Section 10.01 hereof, the Registered Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to consent to and approve the execution by the Authority and the Trustee of such indenture or indentures supplemental hereto as shall be deemed necessary or desirable by the Authority for the purpose of modifying, altering, amending, adding to, or rescinding, in any particular, any of the terms or provisions contained in this Indenture; provided, however, that without the consent of the Registered Owners of not less than one hundred percent (100%) in aggregate principal amount of the Bonds at the time Outstanding and adversely affected thereby nothing herein contained (exclusive of supplemental indentures covered by Section 10.01 hereof) shall permit, or be construed as permitting:

(a) an extension of the maturity of, or a reduction of the principal amount of, or a reduction of the rate of, or extension of the time of payment of interest on, or a reduction of a premium payable upon any redemption of, any Bond;

(b) the deprivation of the Registered Owner of any Bond then Outstanding of the lien created by this Indenture (other than as permitted hereby when such Bond was initially issued);

(c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds; or

(d) a reduction in the aggregate principal amount of the Bonds, if any, required for consent to such supplemental indenture or amendment to the Agreement.

If at any time the Authority shall request the Trustee to enter into such supplemental indenture for any of the purposes of this Section, the Trustee shall, upon being reasonably indemnified by Borrowers with respect to expenses, mail by first-class mail notice of the proposed execution of such supplemental indenture to the Registered Owners of the Bonds at their addresses as the same shall last appear upon the registration records. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal office of the Trustee for inspection by all Registered Owners. If, within 60 days following the mailing of such notice, the Registered Owners of the requisite principal amount of the Bonds

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Outstanding at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as herein provided, no Registered Owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Notwithstanding the foregoing, if Registered Owners, having the requisite percentage ownership (as set forth in this Section 10.02) to consent to, and approve of, the execution of a proposed supplemental indenture, requested any supplemental indenture from the Authority and the Trustee, then the notice to Registered Owners, herein set forth, may be delivered after execution of such supplemental indenture without otherwise affecting the operation of this Section 10.02.

Section 10.03 Execution of Supplemental Indentures. The Trustee is authorized to join with the Authority in the execution of any such supplemental indenture and to make further agreements and stipulations which may be contained therein, but the Trustee shall not be obligated to enter into any such supplemental indenture or any amendment or supplement to the Agreement, or any other document relating to the Bonds which the Trustee determines adversely affects its own rights, duties, or immunities under this Indenture or any other document relating to the Bonds. No supplemental indenture shall be valid or effective unless or until the Trustee and the Authority shall have received an opinion of Bond Counsel acceptable to the Trustee and addressed to the Trustee and the Authority to the effect that each such supplemental indenture (a) has been validly authorized and duly executed by the Authority and is enforceable against the Authority in accordance with its terms, (b) will not adversely affect the qualification of the Bonds as obligations which may be issued pursuant to the Act, (c) will not adversely affect the exclusion from gross income of interest on the Series 2020 Bonds or any series of Additional Tax-Exempt Bonds for federal income tax purposes and (d) is permitted pursuant to the terms of this Indenture. The Trustee may conclusively rely on such opinion. Any supplemental indenture executed in accordance with the provisions of this Article shall thereafter form a part of this Indenture and all the terms and conditions contained in any such supplemental indenture as to any provision authorized to be contained therein shall be deemed to be part of this Indenture for any and all purposes. In case of the execution and delivery of any supplemental indenture, express reference may be made thereto in the text of the Bonds issued thereafter, if any.

Section 10.04 Consent of Borrowers. Anything herein to the contrary notwithstanding, a supplemental indenture under this Article shall not become effective unless and until Borrowers shall have consented to the execution and delivery of such supplemental indenture, unless an Event of Default has occurred and is continuing under the Agreement.

Section 10.05 Consent of Corporation. Anything herein to the contrary notwithstanding, so long as the Leases are in effect and no event of default has occurred and is continuing thereunder, a supplemental indenture under this Article shall not become effective unless and until the Corporation shall have consented to the execution and delivery of such supplemental indenture.

Section 10.06 Amendments, Etc., of the Agreement Not Requiring Consent of Registered Owners. The Authority and the Trustee may, without the consent or notice to the Bondholders, shall consent to any amendment, change or modification of the Agreement as may

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appointed in writing. Proof of the execution of any such instrument or of an instrument appointing any such attorney, or the Registered Ownership of Bonds shall be sufficient (except as otherwise herein expressly provided) if made in the following manner, but the Trustee may, nevertheless, in its discretion require further or other proof in cases where it deems the same desirable:

(a) The fact and date of the execution by any Registered Owner or his or her attorney of such instrument may be proved by the certificate of any officer authorized to take acknowledgments in the jurisdiction in which he purports to act that the Person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before a notary public.

(b) The Registered Ownership of any Bond and the amount and numbers of such Bonds and the date of owning the same shall be proved by the registration records of the Authority kept by the Trustee.

Any request or consent of the Registered Owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the Authority or the Trustee in accordance therewith.

As long as the Bonds are registered in the name of a securities depository or its nominee, evidence and solicitation of consent will be managed as required by such depository's operating procedures.

Section 11.02 Parties Interested Herein. With the exception of rights herein expressly conferred on the Borrowers, the Corporation and the indemnified Persons described herein, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon or to give to, any Person other than the Authority, the Trustee and the Registered Owners of the Bonds, any right, remedy or claim under or by reason of this Indenture or any covenant, condition or stipulation hereof; and all the covenants, stipulations, promises and agreements in this Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Trustee and the Registered Owners of the Bonds.

Section 11.03 Titles, Headings, Etc. The titles and headings of the articles, sections, and subsections of this Indenture have been inserted for convenience of reference only and shall in no way modify or restrict any of the terms or provisions hereof.

Section 11.04 Severability. In the event any provision of this Indenture shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 11.05 Governing Law. This Indenture shall be governed by and construed in accordance with the laws of the Commonwealth, regardless of the location of the principal or any other office of the Trustee.

Section 11.06 Execution in Counterparts. This Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

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be required or otherwise permitted (i) by the provisions of the Agreement or this Indenture, (ii) for the purpose of curing any ambiguity, defect, inconsistent provision or omission in the Agreement, or (iii) in connection with any other change therein which, in the judgment of the Authority, is not to the prejudice of the Trustee or the holders of the Bonds. In determining whether a proposed amendment is not to the prejudice of the holders of the Bonds, the Trustee may rely on the Opinion of Counsel or the report of a financial consultant selected by the Authority in its reasonable discretion.

Section 10.07 Amendments, Etc., of the Agreement Requiring Consent of Bondholders. Except for the amendments, changes or modifications as provided in Section 10.06 hereof, neither the Authority nor the Trustee shall consent to any other amendment, change or modification of the Agreement without the written approval or consent of the holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding.

Section 10.08 Amendments, Etc. of the Master Indenture or Mortgages. In the event that the Trustee as the holder of the 2020 Note is requested (in writing) by the Master Trustee to consent to any amendment to the Master Indenture, the 2020 Note, or any Note (as defined in the Master Indenture) securing a Series of Additional Bonds, or a Mortgage (other than an increase in the maximum amount secured by such Mortgage, for which no consent is required), the Trustee shall obtain the written consent of the holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding to such amendment.

Section 10.09 Conditions to Supplements and Amendments. Before the Trustee enters into any supplemental indenture or consents to any amendments to the Master Indenture or a Mortgage (other than an increase in the maximum amount secured by such Mortgage, for which no consent is required), or before the Authority, the Trustee and the Borrowers enter into any amendment or supplement to the Agreement, there must have been delivered to the Trustee: (i) opinion of Bond Counsel acceptable to the Trustee and addressed to the Trustee and the Authority to the effect that each such supplemental indenture or amendment (a) has been validly authorized and duly executed by the applicable Borrower and the Authority, if applicable, and is enforceable against such Borrower and the Authority, if applicable, in accordance with its terms, (b) will not adversely affect the qualification of the Bonds as obligations which may be issued pursuant to the Act, (c) will not adversely affect the exclusion from gross income of interest on the Series 2020 Bonds or any series of Additional Tax-Exempt Bonds for federal income tax purposes and (d) is permitted pursuant to the terms of this Indenture, and (ii) an Opinion(s) of Counsel substantially to the effect that (1) all conditions in this Article X have been satisfied with respect to such supplemental indenture or other amendment, and (2) upon execution thereof such supplemental indenture or other amendment or supplement will be valid and binding upon each of the Authority and the Borrowers, as applicable, and (iii) any required consents, in writing, of the Bondholders.

ARTICLE XI MISCELLANEOUS

Section 11.01 Evidence of Signature of Registered Owners and Ownership of Bonds. Any request, consent or other instrument which this Indenture may require or permit to be signed and executed by the Registered Owners may be in one or more instruments of similar tenor, and shall be signed or executed by such Registered Owners in person or by their attorneys

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Section 11.07 Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when (a) mailed by certified or registered mail, postage prepaid, (b) deposited with any nationally recognized overnight delivery service that routinely issues receipts, or (c) personally delivered by any courier service that routinely issues receipts, if to the Authority, 1500 Market Street, Suite 3500 West, Philadelphia, PA 19102, Attention: Chairperson; if to Borrowers, c/o Philadelphia Performing Arts: A String Theory Charter School, 2600 South Broad Street, Philadelphia, PA 19145; if to the Corporation, to 2600 South Broad Street, Philadelphia, PA 19145, Attention: Chief Executive Officer, and if to the Trustee, at Two Liberty Place, Suite 2000, 50 S. 16th Street, Philadelphia, PA 19102, Attention: Global Corporate Trust. A duplicate copy of each notice, certificate, or other communication given hereunder by the Authority or the Trustee, shall also be given to Borrowers. The Authority, the Borrowers, the Corporation and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

Section 11.08 Payments Due on Holidays. If the date for making any payment or the last day for performance of any act or the exercise of any right, as provided in this Indenture, is not a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day unless otherwise provided herein with the same force and effect as if done on the nominal date provided in this Indenture.

Section 11.09 No Personal Liability of Officials of the Authority or the Trustee. No covenant or agreement contained in the Bonds or in this Indenture shall be deemed to be the covenant or agreement of any elected or appointed official, officer, agent, servant or employee of the Authority in his or her individual capacity or any officer, agent, servant or employee of the Trustee in his or her individual capacity, and neither the members of the governing body of the Authority nor any official executing the Bonds, including any officer or employee of the Trustee, shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 11.10 No Pecuniary Liability of the Authority. No provision, covenant or agreement contained in this Indenture or any obligations herein imposed upon the Authority, or the breach thereof, shall constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit. In making the agreements, provisions and covenants set forth in this Indenture, the Authority has not obligated itself except with respect to the application of the Trust Estate for payment of the Bonds under this Indenture.

Section 11.11 No Recourse of Authority Officers, etc.

(a) No recourse under or upon any obligation, covenant or agreement contained in this Indenture or in any Bond hereby or thereby secured, or because of any indebtedness hereby or thereby secured, shall be had against any past, present or future member, officer or employee, as such, of the Authority, or of any successor of the Authority, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise; it being expressly agreed and understood that this Indenture, and the obligations hereby or thereby secured, are solely corporate obligations of the Authority, and that no personal liability whatsoever shall attach to, or be

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incurred by, such members, officers or employees, as such, of the Authority or any successor to the Authority, or any of them, because of the incurring of the indebtedness hereby or thereby authorized, or under or by reason of any of the obligations, covenants or agreements contained in or implied from this Indenture or any of the Bonds hereby or thereby secured.

(b) The Bonds are payable solely from the Trust Estate. There shall be no other recourse under the Bonds, this Indenture, the Agreement, the Bonds, or otherwise against the Authority or any other property now or hereafter owned by it. The Authority shall be conclusively deemed to have complied with all of its covenants and other obligations hereunder upon requiring Borrowers in the Agreement to agree to perform such Authority covenants and other obligations (excepting only any approvals or consents permitted or required to be given by the Authority hereunder, and any exceptions to the performance by Borrowers of the Authority's covenants and other obligations hereunder, as provided herein or in the Agreement). However, nothing contained in the Agreement shall prevent the Authority from time to time, in its discretion from performing any such covenants or other obligations. The Authority shall have no liability for any failure to fulfill, or breach by Borrowers of, Borrowers' obligations under or with respect to the Bonds, this Indenture, the Agreement, or otherwise, including, without limitation, Borrowers' obligation to fulfill the Authority's covenants and other obligations under this Indenture.

Section 11.12 No Recourse of the County of Philadelphia, the Commonwealth and its Political Subdivisions. No recourse shall be had for the payment of the principal of or any interest on, any Bond, or for any claim based thereon or on this Indenture, against the County of Philadelphia, the Commonwealth or any political subdivision thereof; it being expressly agreed and understood that this Indenture and the Bonds issued hereunder and thereunder are solely corporate obligations of the Authority payable only out of the Trust Estate and the Authority does not pledge the credit or taxing power of the County of Philadelphia, the Commonwealth or of any political subdivision thereof.

Section 11.13 No Pledge of Taxing Power; Limitation of Liability.

(a) Neither the Commonwealth nor any political subdivision thereof shall be liable for the payment of the principal or redemption price of and the interest on any of the Bonds issued hereunder, or for the performance of any pledge, mortgage, obligation or agreement or indebtedness of the Authority, and none of the Bonds of the Authority issued hereunder shall be construed to constitute any indebtedness of said Commonwealth or political subdivisions within the meaning of any constitutional or statutory provision whatsoever. This Indenture does not pledge the general credit of the Authority nor the general credit nor the taxing power of the Commonwealth or political subdivisions within the meaning of any constitutional or statutory provision whatsoever. Notwithstanding anything to the contrary herein contained, the Authority's liability under this Indenture and the Bonds shall be enforceable only out of the Trust Estate and other property covered by this Indenture, and the lien of any judgment against the Authority shall be limited thereto. Nothing herein, however, shall limit the Trustee's rights against any Person (including without limitation Borrowers) other than the Authority. No recourse shall be had for any claim based on this Indenture or the Bonds, including but not limited to, the payment of

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which the Trustee knows are so owned shall be so disregarded. The Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Authority or Borrowers or any Person directly or indirectly controlling or controlled by or under direct or indirect common control with Borrowers. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Section 11.16 Retention of Records. In accordance with its standard recordkeeping practices, the Trustee will retain all of its records relating to the Bonds and this Indenture (including but not limited to any rebate calculations and payments) for a period of four years after the later of (i) payment in full of the Bonds or (ii) payment in full of any bonds issued to refund the Bonds.

Section 11.17 Electronic Storage. The parties hereto agree that the transaction described herein may be conducted and related documents may be stored by electronic means. Copies, telecopies, facsimiles, electronic files and other reproductions of original executed documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

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the principal or Redemption Price of or interest on the Bonds, against the Authority or any member, officer, agent or employee, past, present or future, of the Authority or any successor body, as such, either directly or indirectly through the Authority or any such successor body, under this Indenture, the Agreement, the Bonds, or any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty or by any legal or equitable proceeding or otherwise. The lien of any judgment entered against the Authority shall similarly be expressly limited to the security as aforesaid.

(b) It is understood and agreed that the Authority is not liable for the debt or any portion of the debt evidenced by the Bonds or interest thereon, this Indenture or the Agreement, neither is the Authority nor are the members of the Authority, or their respective heirs, personal representatives or successors generally or personally liable in connection with any matter, cause or things pertaining to the Bonds or the issuance thereof, this Indenture or any instruments and documents executed and delivered by the Authority in connection with the Bonds.

Section 11.14 Covenant Not to Sue.

(a) The form of Bond provides that the Registered Owners of the Bonds agree not to sue the Authority or any of its board members, officers, agents (including its legal counsel) or employees, past, present or future except as provided herein and in the Loan Agreement as a condition of, and in consideration for, the issuance of the Bonds; accordingly, the Trustee shall not be permitted to sue the Authority on behalf of the Owners of the Bonds, except as provided herein.

(b) The Trustee covenants and agrees that, absent willful misconduct or gross negligence on the part of the Authority or any of its members, officers, agents or employees, past, present or future, the Trustee shall neither sue the Authority, or any of its members, officers, agents or employees, past, present or future, for any costs, damages, expenses, suits, judgments, liabilities, claims, losses, demands, actions or nonactions based upon this financing or sustained in connection with or as a result of this financing. Notwithstanding any other provisions of this Indenture, the Trustee shall be entitled to (i) bring any action of specific performance against the Authority to compel any action required to be taken by the Authority hereunder or under the Agreement, or the Bonds or any action to enjoin the Authority from performing any action prohibited by this Indenture, but no such action shall in any way impose pecuniary liability against the Authority or any of its members, officers, agents or employees, past present and future and (ii) join the Authority in any litigation if such joinder is necessary to pursue any of the Trustee's rights.

Section 11.15 Bonds Owned by the Authority or Borrowers. In determining whether Registered Owners of Bonds in the requisite aggregate principal amount have concurred in any direction, consent or waiver under this Indenture, Bonds which are owned by the Authority or Borrowers or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with Borrowers (unless the Authority, Borrowers or such Person owns all the Bonds which are then Outstanding) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only the Bonds

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IN WITNESS WHEREOF, the Authority and the Trustee have caused this Indenture to be executed in their respective corporate names and attested by their duly authorized officers, all as of the date first above written.

PHILADELPHIA AUTHORITY FOR
INDUSTRIAL DEVELOPMENT

By _____
Chairperson

[SEAL]

Attest:

By _____
Assistant Secretary

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By _____
Authorized Officer

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EXHIBIT A

FORM OF SERIES 2020A BOND

**PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT
CHARTER SCHOOL REVENUE BONDS
(PHILADELPHIA PERFORMING ARTS: A STRING THEORY
CHARTER SCHOOL PROJECT)
SERIES 2020**

NO. R- _____ \$ _____

Maturity Date	Dated	Interest Rate	CUSIP
June 15, 20 _____	December _____, 2020	_____ %	
REGISTERED OWNER: CEDE & CO.			
PRINCIPAL AMOUNT: **DOLLARS**			

PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT, a public instrumentality of the Commonwealth of Pennsylvania (the "Commonwealth") and public body corporate and politic organized and existing under the Pennsylvania Economic Development Financing Law, Act of August 23, 1967, P.L. 251, as amended (the "Authority"), for value received, hereby promises to pay, from the sources hereinafter described, the principal amount stated above in lawful money of the United States of America to the Registered Owner named above, or registered assigns, on the maturity date stated above (unless this Bond shall have been called for prior redemption, in which case on such redemption date), upon the presentation and surrender hereof at the designated office of U.S. Bank National Association, as Trustee, presently located in Philadelphia, Pennsylvania, or at such other location as it shall designate, or at the principal office of its successor in trust (the "Trustee") under the Indenture of Trust, dated as of December 1, 2020 (the "Indenture"), by and between the Authority and the Trustee, and to pay, from like sources, to the person who is the Registered Owner hereof on the close of business on the first calendar day of the month in which an Interest Payment Date occurs (the "Regular Record Date") by check or draft mailed on such payment date to such Registered Owner (except that registered owners of at least \$1,000,000) in aggregate principal amount of the Bonds (as defined below) outstanding may, by written request received by the Trustee at least ten (10) Business Days (as defined in the Indenture) prior to the Regular Record Date, receive payment of interest by wire transfer at the address specified in such request, which address must be in the United States of America) at his or her address as it last appears on the registration books kept for that purpose at the offices of the Trustee, interest on said sum in lawful money from the date hereof at the interest rate set forth above, payable semiannually on June 15 and December 15 of each year, commencing June 15, 2021, until payment of the principal hereof has been made or provided for. Any such interest not so timely paid or duly provided for shall cease to be payable to the Registered Owner hereof at the close of business on the Regular Record Date and shall be payable to the Registered Owner hereof at the close of business on a Special Record Date for the payment of any defaulted interest. Such Special Record Date shall be fixed by the Trustee whenever moneys become

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WITHIN THE MEANING OF ANY COMMONWEALTH CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION OR A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE COMMONWEALTH OR ANY SUCH POLITICAL SUBDIVISION OR AGENCY, THE SERIES 2020 BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM AND SECURED BY THE TRUST ESTATE, ALL AS DESCRIBED IN AND SUBJECT TO LIMITATIONS SET FORTH IN THE INDENTURE, FOR THE EQUAL AND RATABLE BENEFIT OF THE HOLDERS, FROM TIME TO TIME, OF THE SERIES 2020 BONDS.

No recourse shall be had for the payment of the principal of or interest on this Bond, or for any claim based hereon or on the Indenture, against any member, officer or employee, past, present or future, of the Authority or of any successor body, as such, either directly or through the Authority or any such successor body, under any constitutional provision, statute or rule of law, or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise.

The Commonwealth has pledged to and agreed with the registered owners of bonds, notes, and other obligations issued under the Act, and with those parties who may enter into contracts with the Authority pursuant to the provisions of the Act, that the Commonwealth will not limit, alter, restrict or impair the rights vested in the Authority to acquire, construct, reconstruct, maintain and operate any Facility as defined in the Act or to establish, revise, charge and collect rates, rents, fees and other charges as may be convenient or necessary to produce sufficient revenues to meet the expenses of maintenance and operation thereof and to fulfill the terms of any agreements made with the registered owners of bonds, notes or other obligations authorized and issued by the Act and with the parties who may enter into contracts with the Authority pursuant to the Act and will not in any way impair the rights or remedies of the registered owners of such bonds, notes or other obligations of such parties until such bonds, notes and other obligations, together with interest thereon and all costs and expenses in connection with any action or proceeding by or on behalf of such registered owners, are fully met and discharged and such contracts are fully performed on the part of the Authority. Nothing in the Act precludes such limitation or alteration if and when adequate provision is made by law for the protection of the Registered Owners of such bonds, notes or other obligations of the Authority or those entering into such contracts with the Authority.

The Series 2020 Bonds are subject to redemption on the dates, at the redemption prices and following such notice as set forth in the Indenture.

Bonds which are reissued upon transfer, exchange or other replacement shall bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for or if no interest has been paid, from the date of the Bonds.

This Bond is fully transferable by the Registered Owner hereof in person or by his or her duly authorized attorney on the registration books kept by the Trustee, upon surrender of this Bond together with a duly executed written instrument of transfer satisfactory to the Trustee; subject, however, to the terms of the Indenture which limit the transfer and exchange of Bonds during certain periods and DTC requirements, if applicable. Upon such transfer a new fully registered bond of Authorized Denomination or Denominations for the same aggregate principal amount will be issued to the transferee in exchange therefor, all subject to the terms, limitations and conditions set forth in the Indenture. The Trustee and the Authority shall require the payment by any

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available for payment of the defaulted interest, and notice of the Special Record Date shall be given to the registered owners of the Bonds not less than 10 days prior thereto.

This Bond is one of a duly authorized Series of the Authority's "Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project) Series 2020" (the "Series 2020 Bonds") in the aggregate principal amount of \$52,405,000 pursuant to and in accordance with the terms of the Indenture. The Series 2020 Bonds are issued under and equally and ratably secured by the Indenture. The Series 2020 Bonds have been issued under the Pennsylvania Economic Development Financing Law, Act of August 23, 1967, P.L. 251, as amended (the "Act"), to fund a loan to DeMedici Corporation ("DeMedici") and DeMedici Corporation II ("DeMedici II") and, together with DeMedici, the "Borrowers" and each a "Borrower", each a Pennsylvania non-profit corporation, that is an entity described in Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"), which is exempt from federal taxation under Section 501(a) of the Code, to (a) refund the Authority's Revenue Bonds (Philadelphia Performing Arts Charter School Project), Series of 2013, issued in the original aggregate principal amount of \$55,500,000 and outstanding in the principal amount of \$51,940,000 the proceeds of which were used to finance school facilities located at (i) 2600-30 South Broad Street, Philadelphia, PA; (ii) 2407 Broad Street, Philadelphia, PA, 1338-42 Riner Street, Philadelphia, PA and 2419-37 South Broad Street, Philadelphia, PA; and (iii) 1600 Vine Street, Philadelphia, PA (collectively, the "2013 Facilities"); (b) finance the payment of, or reimbursement to the Borrowers for, the acquisition, construction, renovation and equipping of school facilities and other buildings located at 2632 South Broad Street, Philadelphia, PA 19145 (the "2632 Broad Street Facilities" and, together with the 2013 Facilities, the "Facilities") to expand capacity for the operations of Philadelphia Performing Arts: A String Theory Charter School (the "Corporation"), a public charter school duly organized and validly existing under the Pennsylvania Charter School Law (24 P.S. §17-1701-A, et seq.) for use in its school operations; (c) fund a debt service reserve fund for the Series 2020 Bonds; and (d) fund all or a portion of the costs of issuance of the hereinafter defined Series 2020 Bonds (collectively, the "Project").

This Bond is a limited obligation of the Authority payable solely and exclusively from and secured on a parity basis with the Series 2020 Bonds and any Additional Bonds issued under the Indenture, by (a) a pledge of certain rights of the Authority under and pursuant to the (i) Loan Agreement, dated as of December 1, 2020 (the "Agreement"), by and between the Authority and Borrowers, and (ii) the 2020 Note (as defined in the Indenture), (b) a pledge of the Funds and Revenues as defined in the Indenture (other than the Rebate Fund) and, to the extent provided in the Indenture, all trust accounts created under the Indenture and the Agreement and (c) any and all other interests in real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind specifically mortgaged, pledged or hypothecated, and as for additional security under the Indenture by the Authority or by anyone on its behalf or with its written consent in favor of the Trustee. The Loan Payments required by Borrowers under the Agreement are general obligations of the Borrowers.

THE SERIES 2020 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, AND THE SERIES 2020 BONDS AND THE INTEREST THEREON AND REDEMPTION PREMIUM, IF ANY, SHALL NOT BE DEEMED TO CONSTITUTE OR CREATE AN INDEBTEDNESS, LIABILITY OR OBLIGATION OF THE AUTHORITY THE COMMONWEALTH OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF

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Registered Owner of this Bond requesting exchange or transfer of the reasonable expenses of the Authority, if any, of a reasonable transfer or exchange fee and of any tax or other governmental charge required to be paid with respect to such exchange or transfer. The Authority and the Trustee may deem and treat the person in whose name this Bond is registered as the absolute owner hereof, whether or not this Bond shall be overdue, for the purpose of receiving payment and for all other purposes, except to the extent otherwise provided herein and in the Indenture with respect to Regular Record Dates and Special Record Dates for the payment of interest, and neither the Authority nor the Trustee shall be affected by any notice to the contrary. Each Registered Owner agrees to indemnify the Authority and the Trustee against any liability that may result from the transfer, exchange or assignment of this Bond in violation of any provision of the Indenture and/or applicable United States federal or state securities law.

To the extent permitted by, and as provided in, the Indenture, modifications or amendments of the Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Authority and of the registered owners of the Bonds may be made by the Authority and the Trustee, but without the consent of the registered owners of the Bonds, in certain cases described in the Indenture, including any change which does not materially adversely affect the interests of the registered owners of the Bonds. Certain other amendments may be made by the Authority and the Trustee with the consent of the registered owners of not less than a majority in aggregate principal amount of the Bonds then outstanding; provided, however, that no such modification or amendment shall be made which will constitute an extension of the maturity of, or a reduction in the principal amount of, or a reduction of the rate of interest on or extension of the time of payment of interest on, or a reduction of any premium payable upon redemption of, any Bond, which are unconditional unless consented to by the Registered Owners of not less than one hundred percent (100%) in aggregate principal amount of the Bonds at the time Outstanding adversely affected by such change. Any such consent by the Registered Owner of this Bond shall be conclusive and binding upon such Registered Owner and upon all future Registered owners of this Bond and of any bond issued upon the transfer or exchange of this Bond whether or not notation of such consent is made upon this Bond.

The Registered Owner of this Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the pledge, assignment or covenants made therein or to take any action with respect to an Event of Default under the Indenture or to institute, appear in, or defend any suit, action or other proceeding at law or in equity with respect thereto, except as provided in the Indenture. In case an Event of Default under the Indenture shall occur and continue beyond notice and any applicable grace period, the principal of all the Bonds at any such time outstanding may be declared or may become due and payable, upon the conditions and in the manner and with the effect provided in the Indenture. The Indenture provides that such declaration may in certain events be rescinded by the Trustee, with the consent of the registered owners of a requisite principal amount of the Bonds then outstanding.

None of the members of the board of directors of either Borrower, the members of the board of directors of the Authority or any person executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

The liability of the Authority and obligations of the Authority under the Agreement and the Indenture with respect to all or any portion of the Bonds may be discharged at or prior to the

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maturity or redemption of the Bonds upon the making of provision for the payment thereof on the terms and conditions set forth in the Agreement and the Indenture.

No covenant or agreement contained in the Bonds or in the Indenture shall be deemed to be the covenant or agreement of any appointed official, officer, agent, servant or employee of the Authority in his or her individual capacity or of any officer, agent, servant or employee of the Trustee in his or her individual capacity, and neither the members of the governing body of the Authority nor any official executing the Bonds, including any officer or employee of the Trustee, shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

No covenant or agreement contained in the Agreement shall be deemed to be the covenant or agreement of any appointed official, officer, agent, servant or employee of the Authority or Borrowers in his or her individual capacity, and the members of the governing bodies of the Authority and Borrowers shall not be liable personally or be subject to any personal liability or accountability by reason of the execution and delivery thereof.

The Registered Owners of this Bond agrees not to sue the Authority or any of its board members, officers, agents (including its legal counsel) or employees, past, present or future except as provided in the Indenture and in the Loan Agreement as a condition of, and in consideration for, the issuance of the Bonds; accordingly, the Trustee shall not be permitted to sue the Authority on behalf of the Owners of the Bonds, except as provided in the Indenture.

It is hereby certified, recited and declared that all conditions, acts and things required by the Constitution or statutes of the Commonwealth or by the Act or the Indenture to exist, to have happened or to have been performed precedent to or in the issuance of this Bond exist, have happened and have been performed.

Copies of the Indenture, the Agreement and other documents relating to the Bonds are on file at the principal office of the Trustee, and reference is made to those instruments for the provisions relating, among other things, to the limited liability of Borrowers, the terms of and security for the Bonds, the custody and application of the proceeds of the Bonds, the rights and remedies of the registered owners of the Bonds, amendments, and the rights, duties and obligations of the Authority and the Trustee to all of which the Registered Owner hereof, by acceptance of this Bond, assents.

This Bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose until the Trustee shall have signed the certificate of authentication hereon.

NONE OF THE AUTHORITY, BORROWERS OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A HOLDER WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE TIMELY OR ULTIMATE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT

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IN WITNESS WHEREOF, the PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT has caused this Bond to be signed in its name and on its behalf by the manual or facsimile signature of its Chairman or Vice Chairman and a facsimile of its corporate seal to be affixed hereon and attested by the manual or facsimile signature of its Secretary or Assistant Secretary.

[SEAL]

PHILADELPHIA AUTHORITY FOR
INDUSTRIAL DEVELOPMENT

By _____
(Vice) Chairman

Attest:

By _____
(Assistant) Secretary

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PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO REGISTERED OWNERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

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[FORM OF CERTIFICATE OF AUTHENTICATION]

This is one of the Bonds described in the within mentioned Indenture of Trust.

Date of Authentication: _____, 2020

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By _____
Authorized Signatory

[END OF FORM OF CERTIFICATE OF AUTHENTICATION]

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[FORM OF ASSIGNMENT]

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned, hereby sells, assigns and transfers unto _____ the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____ to transfer the within bond on the books kept for registration thereof with full owner of substitution in the premises.

Please insert social security or other identifying number of assignee:

Dated: _____

NOTICE: The signature to this Assignment must correspond with the name as it appears upon the face of the within bond in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed:

NOTICE: Signature must be guaranteed by a member of a Medallion Signature Program. Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or a trust company.

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LOAN AGREEMENT

THIS LOAN AGREEMENT, dated as of December 1, 2020 (this “Agreement”), is by and between the **PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT**, a public instrumentality of the Commonwealth of Pennsylvania and public body corporate and politic organized and existing under the Pennsylvania Economic Development Financing Law, Act of August 23, 1967, P.L. 251, as amended (the “Authority”), and **DEMEDICI CORPORATION** (“DeMedici”) and **DEMEDICI CORPORATION II** (“DeMedici II”), each a Pennsylvania non-profit corporation (collectively, the “Borrowers” and individually a “Borrower”).

WITNESSETH:

WHEREAS, certain of the capitalized terms used in the preambles hereto are defined in Article I of this Agreement; and

WHEREAS, the Authority is authorized by the Pennsylvania Economic Development Financing Law, Act of August 23, 1967, P.L. 251, as amended (the “Act”) to issue revenue bonds for the purposes set forth therein; and

WHEREAS, each Borrower is a duly organized and validly existing Pennsylvania non-profit corporation that is an organization described in Section 501(c)(3) of the Code (as herein defined), which is exempt from federal taxation under Section 501(a) of the Code; and

WHEREAS, the Borrowers have requested that the Authority issue its bonds and loan the proceeds therefrom to the Borrowers in order to: (a) refund the Authority’s Revenue Bonds (Philadelphia Performing Arts Charter School Project), Series of 2013, issued in the original aggregate principal amount of \$55,500,000 and outstanding in the principal amount of \$51,940,000 (the “Refunded Bonds”) the proceeds of which were used to finance school facilities located at (i) 2600-30 South Broad Street, Philadelphia, PA; (ii) 2407 Broad Street, Philadelphia, PA, 1338-42 Ritner Street, Philadelphia, PA and 2419-37 South Broad Street, Philadelphia, PA; and (iii) 1600 Vine Street, Philadelphia, PA (collectively, the “2013 Facilities”); (b) finance the payment of, or reimbursement to the Borrowers for, the acquisition, construction, renovation and equipping of school facilities and other buildings located at 2632 South Broad Street, Philadelphia, PA 19145 (the “2632 Broad Street Facility” and, together with the 2013 Facilities, the “Facilities” and individually, a “Facility”) to expand capacity for the operations of Philadelphia Performing Arts: A String Theory Charter School (the “Corporation”), a public charter school duly organized and validly existing under the Pennsylvania Charter School Law (24 P.S. §17-1701-A, et seq.) for use in its school operations; (c) fund a debt service reserve fund for the Series 2020 Bonds; and (d) fund all or a portion of the costs of issuance of the hereinafter defined Series 2020 Bonds (collectively, the “Project”); and

WHEREAS, the Corporation is a nonprofit corporation duly created and validly existing under the laws of the Commonwealth and a tax-exempt organization under Section 501(c)(3) of the Code; and

WHEREAS, the Authority proposes to issue its Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project) Series 2020 (the “Series 2020 Bonds”) in the original aggregate principal amount of \$52,405,000 under an Indenture of

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“*Cost of the Project*” means the sum total of all reasonable or necessary costs incidental to the Project that may be financed pursuant to the Act.

“*Default Rate*” means the lesser of (i) 3% per annum above the highest rate of interest borne by any of the Bonds or (ii) the maximum rate permitted by law.

“*Event of Default*” means those defaults specified in Section 10.01 hereof.

“*Facilities*” or “*Facility*” has the meaning set forth in the recitals to this Agreement.

“*Fiscal Year*” means each Borrower’s fiscal year, which currently begins on July 1 and ends on June 30 of the following calendar year.

“*Indenture*” means the Indenture of Trust, dated as of December 1, 2020, by and between the Authority and the Trustee, including any indentures supplemental thereto made in conformity therewith, pursuant to which the Bonds are authorized to be issued and secured.

“*IRS*” means the Internal Revenue Service, a bureau of the U.S. Department of the Treasury.

“*Leases*” has the meaning set forth in the recitals hereto.

“*Limited Offering Memorandum*” means the Limited Offering Memorandum prepared in connection with the sale of the Series 2020 Bonds.

“*Loan*” means the loan by the Authority to Borrowers of the proceeds from the sale of the Series 2020 Bonds pursuant to this Agreement.

“*Loan Payments*” means those payments required to be paid by Borrowers pursuant to Section 5.02(a) hereof.

“*Mortgaged Property*” has the meaning set forth in the Master Indenture.

“*Permitted Encumbrance*” has the meaning set forth in the Master Indenture.

“*Project*” has the meaning set forth in the recitals to this Agreement.

“*Property*” means any and all right, title and interest in and to any and all property of Borrowers whether real or personal, tangible or intangible and wherever situated and whether now owned or hereafter acquired.

Section 1.01 Obligations of each Borrower; Borrowers’ Administrative Agent. Any obligation herein expressed as that of the Borrowers shall be construed as a joint and several obligation of each Borrower. If any provision hereof creating a joint obligation of each Borrower is held ineffective for that purpose, such provision shall be construed as creating a separate obligation of each Borrower, and if any provision hereof creating (or construed as creating) a separate obligation of each Borrower is held ineffective as to one of them, such determination shall not affect the obligation of the other Borrower. Any obligation of a Borrower hereunder may be

Trust, dated as of December 1, 2020 (the “Indenture”), by and between the Authority and U.S. Bank National Association, solely in its capacity as Trustee thereunder, to fund such loan; and

WHEREAS, pursuant to and in accordance with the Act, the Authority proposes to loan (the “Loan”) to Borrowers, and Borrowers desire to borrow from the Authority the proceeds of the Series 2020 Bonds for purposes of financing the Project upon the terms and conditions hereinafter in this Agreement set forth; and

WHEREAS, as security for its obligation to make payments required under this Agreement, the Borrowers have issued a promissory note (the “2020 Note”) under the terms of and pursuant to the Master Trust Indenture dated as of December 1, 2020 (the “Original Master Indenture”), as supplemented by a Supplemental Master Trust Indenture No. 1 dated as of December 1, 2020 (the “Supplemental Master Indenture” and, together with the Original Master Indenture, the “Master Indenture”) among the Borrowers and U.S. Bank National Association, as master trustee (the “Master Trustee”); and

WHEREAS, the Corporation currently leases the 2013 Facilities from the Borrowers under two separate lease agreements and upon the issuance of the Series 2020 Bonds, DeMedici will use a portion of the proceeds of the Series 2020 Bonds to acquire, or refinance the purchase of, the 2632 Broad Street Facility, the Corporation’s existing leases of the 2013 Facilities will terminate and the Borrowers and the Corporation will enter into two separate Lease Agreements (collectively, the “Leases,” and individually a “Lease”) for each respective Facility that provides that for the payment of Base Rent (as defined in the Lease) by the Corporation to the Master Trustee (for the account of the Borrowers) in an aggregate amount that will be in an amount sufficient to pay the debt service on the 2020 Note; and

WHEREAS, the issuance, sale and delivery of the Series 2020 Bonds and the execution and delivery of this Agreement have been in all respects duly and validly authorized in accordance with the Act by the resolutions of the Authority;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto formally covenant, agree and bind themselves as follows:

ARTICLE I DEFINITIONS

Section 1.01. **Definitions.** All terms defined in Article I of the Indenture or the Lease shall have the same meaning in this Agreement. In addition, the following terms, except where the context indicates otherwise, shall have the respective meanings set forth below:

“*Accountant*” means any independent public accounting firm licensed to practice in the Commonwealth (which may be the firm of accountants who regularly audit the books and accounts of Borrowers) from time to time selected by Borrowers.

“*Agreement*” means this Loan Agreement and any amendments and supplements hereto made in conformity with the requirements hereof and of the Indenture.

“*Corporation*” has the meaning set forth in the recitals to this Agreement.

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performed by the other Borrower, but such action shall not affect any other obligation of a Borrower. No obligation of a Borrower hereunder shall be diminished by any allocation of responsibility between the Borrowers without the concurrence of the other parties hereto. No extension, release, waiver or other indulgence with respect to one Borrower’s performance of an obligation hereunder shall diminish the other Borrower’s responsibility to perform that obligation.

The Borrowers’ Administrative Agent is hereby authorized to serve as the representative of, and to act on behalf of each Borrower for all purposes of this Agreement, unless the context clearly requires otherwise. The Trustee and the Authority are hereby entitled and authorized to give notices and directions to, and authorized to receive notices, approvals, consents and direction from, and otherwise to deal solely with, the Borrowers’ Administrative Agent on behalf of each Borrower under this Agreement, unless the context clearly requires otherwise.

ARTICLE II REPRESENTATIONS

Section 2.01. **Representations by the Authority.** The Authority represents that:

(a) The Authority is a public instrumentality of the Commonwealth and public body corporate and politic duly organized and existing under the laws of the Commonwealth. The Authority is authorized by the Act to enter into this Agreement, the Tax Certificate and the Indenture, and to carry out the transactions contemplated hereby and thereby and to carry out its obligations hereunder and thereunder and has duly authorized the execution and delivery of this Agreement, the Tax Certificate and the Indenture.

(b) Consistent with the understanding between the Authority and Borrowers, the Authority will loan Borrowers the proceeds of the Series 2020 Bonds to provide for the financing of the Project, all for the purpose of providing adequate educational facilities.

(c) To finance the Cost of the Project, the Authority will issue the Series 2020 Bonds. The Series 2020 Bonds shall mature, bear interest, be subject to redemption prior to maturity, be secured and have such other terms and conditions as are set forth in the Indenture.

(d) Neither the execution and delivery of this Agreement, the Tax Certificate, the Limited Offering Memorandum or the Indenture, the consummation of the transactions contemplated hereby or thereby, nor the fulfillment of or compliance with the terms and conditions of this Agreement, the Tax Certificate or the Indenture, violates any law, conflicts with or results in a breach of any of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Authority is now a party or by which it is bound or constitutes a default under any of the foregoing or results in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Authority under the terms of any instrument or agreement.

Section 2.02. **Representations by Borrowers.** Each Borrower represents and covenants that:

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(a) To the best of its knowledge, Borrower is a Pennsylvania non-profit corporation duly organized and in existence under the laws of the Commonwealth; has the power and authority to own its respective Facility; has power to enter into and to perform and observe the covenants and agreements on its part contained in this Agreement, the Mortgage to which it is a party, the Lease to which it is a party, the Continuing Disclosure Agreement, the Master Indenture and the Tax Certificate; and by proper action has duly authorized the execution and delivery of this Agreement, the Mortgage to which it is a party, the Lease to which it is a party, the Master Indenture, the Continuing Disclosure Agreement and the Tax Certificate.

(b) To the best of its knowledge, neither the execution and delivery of this Agreement, the Mortgage to which it is a party, the Lease to which it is a party, the Master Indenture, the Continuing Disclosure Agreement or the Tax Certificate, the consummation of the transactions contemplated hereby and thereby, nor the fulfillment of or compliance with the terms and conditions of this Agreement, the Mortgage to which it is a party, the Lease to which it is a party, the Master Indenture, the Continuing Disclosure Agreement or the Tax Certificate violate any law or conflict with or result in a breach of any of the terms, conditions or provisions of any restriction or any agreement or instrument to which Borrower is now a party or by which it is bound or constitute a default under any of the foregoing or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of its respective Facilities under the terms of any instrument or agreement, other than this Agreement, the Mortgage to which it is a party, the Lease to which it is a party, the Master Indenture, the Continuing Disclosure Agreement and the Tax Certificate.

(c) The total Cost of the Project is hereby determined to be \$52,405,000 and the financing of such cost by the Authority will allow Borrowers to refinance the Refunded Bonds and finance the acquisition, construction, installation, renovation, improvement, furnishing and equipping of the Facilities.

(d) Borrower will, subject to Section 8.11 hereof, at all times prior to the expiration of the term of this Agreement make its respective Facility available for lease to and use by the Corporation and has complete lawful authority to lease its respective Facility for such purpose.

(e) The Loan Payments due under this Agreement are in an amount sufficient to pay the principal of and premium, if any, and interest on the Bonds; and this Agreement requires Borrowers to pay or provide for the payment of all costs of maintenance, repair, taxes, payments in lieu of taxes, assessments, insurance premiums, Trustee's fees and all other expenses relating to its respective Facility, so that the Authority will not incur any expenses on account of its respective Facility, other than those that are covered by the payments by Borrowers provided for herein.

(f) There are no actions, suits or proceedings or investigations pending or, to the best of the knowledge of the officer executing this Agreement, threatened against Borrower or the Property of Borrower, or involving the enforceability of the Bonds, this Agreement, the Mortgage to which it is a party, the Lease to which it is a party, the Master

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hereby, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained herein or therein not misleading. There are no facts that Borrower has not disclosed to the Authority and the Underwriter in writing that materially and adversely affect or in the future may (so far as Borrower can now reasonably foresee) materially and adversely affect the properties, business, prospects, profits, or condition (financial or otherwise) of Borrower, or the ability of Borrower to perform its obligations under this Agreement, the Indenture, the Master Indenture, the Tax Certificate, the Lease to which it is a party, the Mortgage to which it is a party, the Continuing Disclosure Agreement or any documents or transactions contemplated hereby or thereby.

(k) To the best of Borrower's knowledge, the use of its respective Facility complies with all presently applicable zoning, development, pollution control, water conservation, environmental, and other applicable laws, regulations, rules, and ordinances of the federal government and the Commonwealth and the respective agencies thereof and the political subdivisions in which its respective Facility are located.

(l) Borrower has obtained, or shall obtain, or cause to be obtained, all necessary approvals of and licenses, permits, consents, and franchises from federal, state, county, municipal, or other governmental authorities having jurisdiction over its respective Facility to construct, install, renovate, improve, furnish and equip its respective Facility, if applicable, and to enter into, execute, and perform its obligations under this Agreement, the Indenture, the Tax Certificate, the Lease to which it is a party, the Master Indenture, the Continuing Disclosure Agreement and the Mortgage to which it is a party.

(m) The Facilities, as designed and operated, meet all material requirements of applicable law, including requirements of any federal, state, county, city or other governmental authority having jurisdiction over its respective Facility or its use and operation.

(n) As of the issuance date of the Series 2020 Bonds, there has been no material adverse change in the financial condition, prospects, or business affairs of Borrower or Corporation or the feasibility or physical condition of its respective Facility subsequent to the date on which the Authority adopted its resolution approving the issuance of the Series 2020 Bonds.

(o) Borrower (i) understands the nature of the structure of the transactions related to the financing of the Project; (ii) is familiar with all the provisions of the documents and instruments related to such financing to which Borrower or the Authority is a party or which Borrower is a beneficiary; (iii) understands the risk inherent in such transactions, including, without limitation, the risk of loss of the Project; and (iv) has not relied on the Authority for any guidance or expertise in analyzing the financial consequences of such financing transactions or otherwise relied on the Authority in any manner, except to issue the Series 2020 Bonds in order to provide funds for the Loan.

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Indenture, the Continuing Disclosure Agreement, the Tax Certificate or the Indenture, or the priority of the lien on Pledged Revenues created hereby, at law or in equity, or before or by any governmental authority, except actions which, if adversely determined, would not materially impair the ability of Borrower to perform its obligations under this Agreement, and to cause to be paid any amounts which may become payable under this Agreement. Borrower is not in default in any material respect under any mortgage, lease, loan or credit agreement, partnership agreement or other instrument to which Borrower is a party or by which it or its property is bound.

(g) Borrower is currently, and shall use commercially reasonable efforts to cause Corporation to be, in compliance with and in the future will comply with all applicable federal and state nondiscrimination laws.

(h) Borrower will, and shall use commercially reasonable efforts to cause Corporation to, comply with the provisions of Securities and Exchange Commission Rule 15c2-12.

(i) Borrower is an organization described in Section 501(c)(3) of the Code that is exempt from federal taxation under Section 501(a) of the Code. Borrower is, and has received a determination letter classifying it as, an organization (i) described in Section 501(c)(3) of the Code which is exempt from federal income taxation under Section 501(a) of the Code (except with respect to "unrelated business taxable income" within the meaning of Section 512(a) of the Code) and (ii) which is not a "private foundation" as defined in Section 509(a) of the Code. Such determination letter has not been modified, limited, revoked or superseded. The Borrower has not received any indication or notice, written or verbal, from representatives of the IRS to the effect that its exemption under Section 501(c)(3) of the Code has been modified, limited, revoked, or superseded, or that the IRS is considering modifying, limiting, revoking or superseding such exemption. Borrower is in compliance with all of the terms, conditions and limitations, if any, contained in its determination letter. There has been no change in the facts and circumstances represented to the IRS as a basis for receiving, and which formed the basis on which the IRS issued, the determination letter relating to Borrower's status as an organization described in Section 501(c)(3) of the Code and as an organization which is not a "private foundation" as defined in Section 509 of the Code of a nature or to a degree as would warrant any action by the IRS to modify, limit, revoke or supersede such determination letter as it applies to Borrower. No administrative or judicial proceedings are pending or threatened which may, in any way, adversely affect the classification of Borrower as an organization (i) described in Section 501(c)(3) of the Code which is exempt from federal income taxation under Section 501(a) of the Code and (ii) which is not a "private foundation" as defined in Section 509 of the Code.

(j) Neither the representations of Borrower contained in this Agreement, the Indenture, the Lease to which it is a party, the Master Indenture, the Tax Certificate, the Continuing Disclosure Agreement, the Mortgage to which it is a party and the Limited Offering Memorandum nor any oral or written statements, furnished by Borrower, nor written statements furnished on behalf of Borrower, to the Authority, bond counsel, the Underwriter or Underwriter's counsel in connection with the transactions contemplated

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ARTICLE III TERM OF THE AGREEMENT

This Agreement shall remain in full force and effect from the date of delivery hereof until such time as the Loan and any other amounts relating to the Bonds shall have been fully paid or provision is made for such payment pursuant to the Indenture and all reasonable and necessary fees and expenses of the Trustee accrued and to accrue through final payment of the Bonds, all fees and expenses of the Authority accrued and to accrue through final payment of the Bonds and all other liabilities of Borrowers accrued and to accrue through final payment of the Bonds under this Agreement and the Indenture have been paid or provision is made for such payments pursuant to the Indenture; provided, however, notwithstanding any other provision hereof (a) the indemnification provisions of Section 8.10 hereof shall survive after the termination of the term of this Agreement; (b) all agreements, representations and certifications by Borrowers as to the exclusion from federal gross income of interest on the Series 2020 Bonds or any other series of Additional Tax-Exempt Bonds shall survive termination of the term hereof until the expiration of statutes of limitation applicable to the liability of the Registered Owners of the Series 2020 Bonds for federal income taxes with respect to interest on the Series 2020 Bonds or such other series of Additional Tax-Exempt Bonds; (c) all agreements, representations and certifications by Borrowers as to the exclusion from Commonwealth gross income of interest on the Bonds shall survive termination of the term hereof until the expiration of statutes of limitation applicable to the liability of the Registered Owners of the Bonds for Commonwealth income taxes with respect to interest on the Bonds; and (d) upon the defeasance of the Indenture, all such indemnification provisions shall be enforceable by the Indemnitees, and all such agreements, representations and certifications regarding the exclusion from gross income of the interest on the Series 2020 Bonds or any other series of Additional Tax-Exempt Bonds shall be enforceable by the Registered Owners of the Series 2020 Bonds or any other series of Additional Tax-Exempt Bonds, directly against Borrowers.

ARTICLE IV THE PROJECT; ISSUANCE OF THE BONDS

Section 4.01. **Agreement to Issue Series 2020 Bonds; Application of Bond Proceeds and Other Moneys.** In order to provide funds to make the Loan for payment of the Cost of the Project, the Authority will sell and cause to be delivered to the initial purchasers thereof the Series 2020 Bonds and will make such Loan and direct the Trustee to deposit the proceeds of the Series 2020 Bonds as follows:

(a) Into the Project Fund an amount equal to the Project Fund Initial Deposit.

(b) To the Refunded Bonds Trustee, an amount equal to \$53,624,112.22 to pay the principal of, premium, if any, and interest of the Refunded Bonds on the date of issuance of the Series 2020 Bonds, pursuant to written instructions delivered by the Authority to the Trustee.

(c) Into the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Fund Requirement.

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(d) The remaining proceeds of the Series 2020 Bonds into the Issuance Expense Fund, which amount shall not be less than the Issuance Expense Fund Initial Deposit.

Section 4.02. **Reserved.**

Section 4.03. **Disbursement from the Project Fund.** The Authority has, in the Indenture, authorized and directed the Trustee to disburse the Loan moneys in the Project Fund to or on behalf of Borrowers for the Cost of the Project upon receipt by the Trustee of a completed requisition, in the form attached hereto as Exhibit A, signed by the Borrowers' Administrative Agent.

Any Loan moneys (including investment proceeds) remaining in the Project Fund after the date of issuance of the Bonds may be used, at the direction of the Borrowers' Administrative Agent, to the extent indicated, for the payment, in accordance with the provisions of this Agreement, of any Cost of the Project not theretofore paid. Any Loan moneys (including investment proceeds) remaining in the Project Fund after the date of issuance of the Bonds, and not set aside for the payment of the Costs of the Project shall on such date be transferred to the Bond Principal Fund to pay principal on the Bonds pursuant to Section 3.05 of the Indenture.

In the event the Loan moneys in the Project Fund available for payment of the Cost of the Project are not sufficient to pay the costs thereof in full, Borrowers will pay or deposit in the Project Fund moneys sufficient to pay the costs of completing the Project as may be in excess of the moneys available therein in the Project Fund. NEITHER THE AUTHORITY NOR THE TRUSTEE MAKES ANY WARRANTY, EITHER EXPRESS OR IMPLIED (1) THAT THE MONEYS WHICH WILL BE PAID INTO THE PROJECT FUND AND WHICH, UNDER THE PROVISIONS OF THIS AGREEMENT, WILL BE AVAILABLE FOR PAYMENT OF THE COSTS OF THE PROJECT, WILL BE SUFFICIENT TO PAY ALL THE COSTS WHICH WILL BE INCURRED IN THAT CONNECTION; OR (2) AS TO THE CONDITION, TITLE, DESIGN, OPERATION, MERCHANTABILITY OR FITNESS OF THE FACILITIES OR THAT THE FACILITIES ARE OR WILL BE SUITABLE FOR BORROWERS' PURPOSES OR NEEDS. Borrowers agree that if after exhaustion of the moneys in the Project Fund or otherwise Borrowers should pay or deposit moneys in the Project Fund for the payment of any portion of the Costs of the Project pursuant to the provisions of this Section, it shall not be entitled to any reimbursement therefrom from the Authority or from the Trustee or from the Registered Owners of the Bonds, nor shall it be entitled to any diminution or postponement of the Loan Payments, or other amounts required to be paid under this Agreement.

Section 4.04. **Disbursements from the Issuance Expense Fund.** The Authority has, in the Indenture, authorized and directed the Trustee to make payments from the Issuance Expense Fund for the payment of issuance expenses as provided in this Section. Payments shall be made from the Issuance Expense Fund only for paying the costs of legal, accounting, organization, marketing or other special services and other fees and expenses, incurred or to be incurred by or on behalf of the Authority, the Trustee, Borrowers or the Corporation in connection with the issuance of the Bonds. The Authority does not make any warranty either express or implied that the moneys in the Issuance Expense Fund available for payment of the foregoing costs will be sufficient to pay such costs in full, and Borrowers agree to pay that portion of such costs in excess of the amount in the Issuance Expense Fund from any moneys legally available for such purpose.

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Agreement, the Trustee shall provide the Authority with written notice of such failure to receive such certificate (but the Trustee shall have no liability if it fails to provide such notice). The Trustee shall transfer moneys from other Funds as provided in Section 3.20 of the Indenture to the Rebate Fund or the United States Treasury if directed in writing by the Borrowers.

The Authority and the Borrowers acknowledge that regulations of the Comptroller of the Currency grant the Authority and the Borrowers the right to receive brokerage confirmations of security transactions as they occur. The Authority and the Borrowers specifically waive such right to notification to the extent permitted by law and acknowledge that they will receive periodic statements regarding such investments as set forth in Article VI of the Indenture.

Section 4.08. **Tax Covenant.** Each Borrower represents and covenants for the benefit of the Authority and the Registered Owners of the Series 2020 Bonds, and their respective successors and assigns that:

(a) Borrower will not take any action or omit to take any action with respect to the Series 2020 Bonds, the proceeds thereof, any other funds of Borrower or any of the Property of Borrower including its respective Facility, if such action or omission (a) would cause the interest on the Series 2020 Bonds to lose its exclusion from gross income for federal income tax purposes under Section 103 of the Code, or (b) would cause interest on the Series 2020 Bonds to lose its exclusion from Commonwealth taxable income under present Commonwealth law. The foregoing covenants shall remain in full force and effect notwithstanding the payment in full or defeasance of the Bonds until the expiration of statutes of limitations applicable to the liability of the Registered Owners of the Series 2020 Bonds for federal income taxes with respect to the interest on the Series 2020 Bonds, and the Registered Owners of the Bonds for Commonwealth income taxes with respect to interest on the Series 2020 Bonds.

(b) Borrower hereby covenants, represents and warrants that the procedures set forth in the Tax Certificate implementing the above covenant shall be complied with to the extent necessary under the Code to maintain the exclusion from gross income of interest on the Series 2020 Bonds for federal income tax purposes or to avoid the application of any penalties under the Code, subject to any applicable statute of limitations. Borrower shall appoint a rebate analyst reasonably acceptable to the Authority and any successor rebate analyst for the Series 2020 Bonds, subject to the conditions set forth in the Tax Certificate.

(c) The Authority and Borrower hereby covenant and agree that they shall not enter into any arrangement, formal or informal, pursuant to which Borrower for any "related party," as defined in Section 1.150-1(b) of the Treasury Regulations) shall purchase the Series 2020 Bonds or any other Additional Tax-Exempt Bonds. This covenant shall not prevent Borrower from purchasing Bonds in the open market for the purpose of tendering them to the Trustee repurchase and retirement.

(d) With the intent not to limit the generality of the foregoing, Borrower covenants and agrees that:

Borrowers shall not be entitled as a result of paying a portion of the issuance expenses pursuant to this Section to any reimbursement therefrom from the Authority, the Trustee or the Registered Owners of the Bonds, nor shall they be entitled to any diminution in or postponement of the Loan Payments or other amounts required to be paid under this Agreement. The Trustee shall make payments from the Issuance Expense Fund in accordance with the closing statement or closing memorandum prepared by the Underwriter dated as of the Closing Date (and may conclusively rely on such closing statement for such purposes without any duty to verify any information therein) and any moneys remaining in the Issuance Expense Fund following such payments and any other payments to be made from such fund after ninety (90) days shall be transferred to the Bond Interest Fund.

Section 4.05. **Disbursements from the Capital Maintenance Fund.** The Authority has, in the Indenture, authorized and directed the Trustee to make payments from the Capital Maintenance Fund as provided in this Section. Payments shall be made from the Capital Maintenance Fund upon receipt by the Trustee of a written requisition from the Borrower's Administrative Agent, in the form set forth as Exhibit B hereto setting forth the amount and the payee for the purpose of paying the cost of maintenance, repairs and replacements which may be required to keep the Facilities in sound condition, including but not limited to repair and replacement of equipment, repair and replacement of any roof or other structural component, exterior painting and the repair and replacement of heating, air conditioning, plumbing and electrical equipment and floor covering. The Trustee shall not be bound to make an investigation into the facts behind, or matters stated in, any such requisition.

Section 4.06. **Obligation of Borrowers to Cooperate in Furnishing Documents to Trustee.** Each Borrower agrees to furnish the requisitions referred to in Sections 4.03, 4.04 and 4.05 hereof to the Trustee in accordance with the terms of such sections.

Section 4.07. **Investment of Moneys.** Any Loan moneys held as a part of the Funds shall be invested, reinvested and transferred to other Funds by the Trustee as provided in Article VI of the Indenture, but only at the written direction of Borrowers. In addition, each Borrower covenants that any money held as a part of the Funds shall be invested in compliance with the procedures established by the Tax Certificate to the extent required to comply with its covenants contained in Section 4.08 hereof. Borrowers shall provide to the Trustee at least every five years, as provided in the Tax Certificate, a certificate of the Borrowers' Administrative Agent to the effect that (a) all requirements of this Agreement, the Indenture and the Tax Certificate with respect to the Rebate Fund have been met on a continuing basis, (b) the proper amounts have been and are on deposit in the Rebate Fund, and (c) timely payment of all amounts due and owing to the United States Treasury have been made. If the certifications required by either (b) or (c) above cannot be made, the certificate shall so state and shall be accompanied by either money of Borrowers together with a direction to the Trustee to either deposit such money to the Rebate Fund or to pay such money over to the United States Treasury, as appropriate, or written directions to the Trustee to transfer investment income available in any Fund to the Rebate Fund or to the United States Treasury, as appropriate, each Borrower acknowledges the provisions of Section 6.03 of the Indenture which limit the amount of money to be so transferred from the Funds at its direction.

If the certificate described in the preceding paragraph is not delivered to the Trustee within 45 days following each computation date as provided in the Tax Certificate, during the term of this

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(i) Borrower shall spend not less than 95% of the proceeds of the Series 2020 Bonds, plus earnings thereon, for capital costs of its respective Facility being financed and all of such Facility will be used by Borrower for its exempt purposes under Section 501(c)(3) of the Code. Capital costs are defined as costs of land or property of a character subject to allowance for depreciation under Section 167 of the Code and do not include inventory or working capital, costs of issuance or interest following completion of construction.

(ii) Borrower (A) will take whatever actions are necessary for it to continue to be organized and operated in a manner which will preserve and maintain its status as an organization which is (1) described in Section 501(c)(3) of the Code, and (2) exempt from federal income taxes under Section 501(a) of the Code (except as to unrelated trade or business income) and (B) will not intentionally perform any acts nor enter into any agreements which would cause any revocation or adverse modification of such federal income tax status.

(iii) Except as permitted by Section 149(b)(3) of the Code, Borrower will not permit the Series 2020 Bonds to be federally guaranteed within the meaning of Section 149(b) of the Code.

(iv) The weighted average maturity of the Series 2020 Bonds does not exceed 120% of the weighted average reasonably expected economic life of the property financed with such Series of Bonds, determined in accordance with Section 147(b) of the Code. For purposes of the preceding sentence, the reasonably expected economic life of property shall be determined as of the date such property was placed in service or, if later, the date of issuance of the related Series of Bonds.

(v) The statements concerning the Series 2020 Bonds and the application of the Bond Proceeds of such Series required by Section 149(c) of the Code, and approved by Borrower on behalf of the Authority, are true and complete for the purposes for which intended. Borrower shall prepare and submit, or cause to be submitted, true and complete amendments of, or supplements to, those statements if, in an opinion of bond counsel, such amendments or supplements are deemed to be necessary or advisable.

(vi) No changes will be made in the bond-financed property of the Series 2020 Bonds or in the use of such Facility which will adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Series 2020 Bonds or will cause the interest on the Series 2020 Bonds, or any portion thereof, to constitute an item of tax preference for purposes of the alternative minimum tax imposed on individuals under the Code. Borrower will use the bond-financed property of the Series 2020 Bonds or cause such property to be used so long as the Series 2020 Bonds remains unpaid so as to constitute a "project" within the meaning of the Act.

(vii) No proceeds of the Series 2020 Bonds will be used to reimburse Borrower for any expenditure made by Borrower more than 60 days prior to a

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qualifying declaration of intent, which is approved by bond counsel, except for planning costs and other preliminary expenditures within the meaning of Section 1.150-2 (f)(2) of the Treasury Regulations not in excess of 20% of the issue price of the related Series of Bonds and de minimis expenses within the meaning of Section 1.150 2(f)(1) of the Treasury Regulations.

(viii) Borrower will not make any investment or deposit in Investment Obligations or which involves the payment or agreement to pay to a party other than the United States an amount that is required to be paid to the United States by entering into a transaction that reduces the rebate amount payable to the United States or results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the yield on the related Series of Bonds not been relevant to either party to the transaction.

(ix) The costs of issuance financed with proceeds of the Series 2020 Bonds, including any bond discount on the sale of such Bonds, will not exceed 2% of the proceeds of such Series 2020 Bonds. Borrower will pay any remaining costs of issuance exceeding 2% of the proceeds of the Series 2020 Bonds on the date of the issuance of the Series 2020 Bonds from sources other than the proceeds of the Series 2020 Bonds.

Section 4.09. Title Insurance; Mortgages.

(a) On the date of recordation of the Mortgages, the Master Trustee will be provided with an extended form mortgagee's title insurance policy insuring the Master Trustee's interest in and lien against the Mortgaged Property, and the other property subject to the Mortgages, subject to Permitted Encumbrances, in an amount not less than the maximum principal amount of the Bonds with respect to the mortgagee's policy, an executed copy of which shall be delivered by the Borrowers to the Master Trustee. Each such policy shall be of a standard or extended American Land Title Association Policy, as applicable, and may not permit the title insurer to purchase any Series 2020 Bonds in lieu of providing payment under the policy unless, upon purchase, such Series 2020 Bonds are cancelled. Upon the date of issuance of the Series 2020 Bonds, the Mortgages will be recorded in the real property records of the City of Philadelphia and provide the Master Trustee with a perfected lien interest in the Mortgaged Property, subject to any Permitted Encumbrances.

(b) Upon the execution by the Borrowers of the Mortgages and its subsequent recording, and upon the execution and filing of UCC-1 financing statements or amendments thereto, the Master Trustee will have a valid lien on the Mortgaged Property and a valid security interest in the personal property subject to no liens, charges or encumbrances other than the Permitted Encumbrances, and as described in Section 6.6 of the Master Indenture, each of the Borrowers and the Master Trustee will take all necessary actions including filing continuation statements to preserve such lien and security interest.

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manner, at the times and under the conditions more specifically provided in Section 6.02 hereof.

(d) As more fully set forth in Section 9.02 of the Indenture, the Borrowers agree, jointly and severally, to pay or cause to be paid to the Trustee the reasonable and necessary fees and expenses of the Trustee, including, without limitation, its reasonable attorney fees and expenses, as and when the same become due, upon submission of a statement therefor, and attaching reasonable supporting documentation.

(e) Borrowers shall, jointly and severally, 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) Borrowers have heretofore paid the Authority an initial fee. Each Borrower agrees, jointly and severally, to pay or cause to be paid to the Authority any amounts required to reimburse the Authority for any reasonable expenses incurred by the Authority, whether out-of-pocket or internal, in connection with any litigation which may at any time be instituted involving this Agreement, the Bonds or any of the other documents contemplated thereby, or incurred in connection with this Agreement, the Indenture, the Bonds, the Tax Certificate, the Bond Purchase Agreement, the Facilities or any other instrument or action relating to the foregoing (but excepting any willful misconduct or misrepresentation by the Authority), including, but not limited to reasonable fees and disbursements of attorneys of the Authority and termination fees. Such additional payment shall be billed to Borrowers from time to time, by the Authority, together with a statement certifying that the amount billed has been paid or inclined and attaching reasonable supporting documentation indicating that the amount billed has been paid or incurred for one or more of the above items. After such a demand, amounts so billed shall be paid by Borrower, jointly and severally, within ten (10) days after receipt of the bill by Borrowers.

(g) In the event of a deficiency in the Capital Maintenance Fund pursuant to Section 3.17 of the Indenture, the Borrowers shall, jointly and severally, pay or cause to be paid to the Trustee, on each Monthly Disbursement Date, an amount equal to the Monthly Capital Maintenance Fund Contribution, until the amount therein equals the Capital Maintenance Fund Requirement.

(h) All amounts required to be paid by the Borrowers to the Trustee pursuant to this Section 5.02, and all other moneys required to be transferred to the Trustee pursuant to this Agreement and the Indenture, shall be transferred as required herein and therein.

(i) Payments received under the 2020 Note or directly from the Master Trustee will be credited against payments required this Section 5.02.

In the event Borrowers should fail to make or cause to be made any of the payments required by this Section, the item or installment in default shall continue as an obligation of Borrowers until the amount in default shall have been fully paid, and Borrowers agree, jointly and severally, to pay the same and, with respect to the payments required by subsections (a), (d) and (f) of Section 5.02 hereof to pay interest at the Default Rate.

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ARTICLE V SECURITY PROVISIONS; PROVISIONS FOR PAYMENT

Section 5.01. **Security; Evidence of Loan Indebtedness.** This Agreement is a limited obligation of the Borrowers secured by and payable solely from amounts paid under the 2020 Note. The Borrowers hereby agree to issue the 2020 Note to the Authority, which will in turn assign it to the Trustee, to secure the payment of principal of, premium, if any, and interest on the Series 2020 Bonds, all amounts due under Section 5.02 hereof and all Unassigned Rights of the Authority.

Section 5.02. Loan Payments and Other Amounts Payable.

(a) Borrowers shall, jointly and severally, pay (or cause to be paid) as repayment of the Loan until the principal of, premium, if any, and interest on the Bonds (and any other sums due hereunder) shall have been paid or provision for the payment thereof shall have been made in accordance with the Indenture, into the Revenue Fund the amounts specified in Section 3.03 of the Indenture, including School District Payments, on the dates specified therein. On or before the mailing of any notice of redemption pursuant to Section 5.06 of the Indenture (other than a sinking fund redemption date), Borrowers shall pay as repayment of the Loan for deposit into the Bond Principal Fund an amount of money which, together with other moneys available therefor in the Bond Principal Fund, is sufficient to pay the principal of and premium, if any, on the Bonds called for redemption and for deposit into the Bond Interest Fund an amount of money which, together with other moneys available therefor in the Bond Interest Fund, is sufficient to pay the interest accrued to the redemption date on the Bonds called for redemption. If by the seventh Business Day prior to any principal or interest payment date on the Bonds or the date any other amounts are payable on the Bonds the amount held by the Trustee in the Bond Principal Fund and the Bond Interest Fund is insufficient to make the required payments of principal of, premium, if any, and interest on the Bonds, Borrowers and the Corporation, on behalf of the Borrowers, shall upon notice of such deficiency from the Trustee forthwith pay or cause to be paid such deficiency as repayment of the Loan for deposit into the Bond Principal Fund or the Bond Interest Fund, as the case may be.

(b) In the event any moneys in the Debt Service Reserve Fund are transferred to the Bond Principal Fund or the Bond Interest Fund pursuant to Section 3.09 of the Indenture or to the Rebate Fund pursuant to Section 3.20 of the Indenture, or in the event the Trustee has notified Borrowers of a deficiency in the Debt Service Reserve Fund pursuant to Section 3.09 of the Indenture, Borrowers will in 6 equal monthly installments, beginning the month following the date on which such deficiency occurs and each month thereafter (in accordance with Section 3.11 of the Indenture), deposit or cause to be deposited moneys into the Debt Service Reserve Fund in an amount equal to the amount required to cause the total amount in the Debt Service Reserve Fund to equal the Debt Service Reserve Fund Requirement.

(c) Borrowers shall, jointly and severally, pay or provide for the payment of all taxes and assessments, general or special, concerning or in any way related to the Facility or any part thereof, during the term of this Agreement and any other governmental charges and impositions whatsoever, and all utility and other charges and assessments, in the

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Section 5.03. **Payers of Payments.** The Loan Payments provided for in Section 5.02(a) hereof shall be paid or cause to be paid in funds immediately available in the city in which the principal office of the Trustee is located or at such other location as it shall direct, to the Trustee for the account of the Authority and shall be deposited into the Bond Principal Fund or the Bond Interest Fund, as appropriate. The payments provided for in Section 5.02(b) hereof shall be paid to the Trustee for the account of the Authority and deposited into the Debt Service Reserve Fund. The payments provided for in Section 5.02(c) hereof shall be paid to the persons to whom due. The payments to be made to the Trustee under Section 5.02(d) hereof shall be paid to the Trustee for its own use. The payments provided for in Section 5.02(e) hereof shall be paid to the Trustee for the account of the Authority and deposited into the Rebate Fund. The payments to be made to the Authority under Section 5.02(f) hereof shall be paid to the Authority for its own use. The payments provided for in Section 5.02(g) hereof shall be paid to the Trustee for the account of the Authority and shall be deposited into the Capital Maintenance Fund.

Section 5.04. **Obligations of Borrowers Hereunder Unconditional.** The obligations of the Borrowers to make the payments required hereunder and of the Obligated Group under the 2020 Note and the obligations of the Borrowers to perform and observe the other agreements on their part contained herein shall be general obligations of each Borrower, absolute and unconditional. The Borrowers (a) will not suspend or discontinue, or permit the suspension or discontinuance of, any payments provided for herein, (b) will perform and observe all of its other agreements contained in this Agreement and (c) except as provided in Article XI hereof, will not terminate this Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure to complete the Project, failure of consideration, eviction or constructive eviction, destruction of or damage to the Facilities (except that, to the extent the Net Proceeds are applied by the Trustee to the prepayment of the Series 2020 Bonds pursuant to Section 5.02 of the Indenture and Section 11.06 hereof, the obligation of the Borrowers hereunder shall be reduced accordingly), commercial frustration of purpose, or change in the tax or other laws or administrative rulings of or administrative actions by the United States of America or the Commonwealth or any political subdivision of either, any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability, or obligation arising out of or connected with this Agreement, whether express or implied, or any failure of the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture, whether express or implied. Borrowers may at their own cost and expense and in its own name or in the name of the Authority (without expense to the Authority and without the Authority's prior written consent), prosecute or defend any action or proceeding or take any other action involving third persons which Borrowers deem reasonably necessary in order to secure or protect its or its lessees' rights of possession, occupancy and use of the Facilities; provided, however, that any such prosecution, defense or action taken by Borrowers in the name of the Authority shall not preclude or prohibit in any way the Authority from prosecuting, defending, joining or intervening in such action or proceedings, or taking any other action it deems necessary, in its own name and of its own accord.

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ARTICLE VI
INSURANCE

Section 6.01. **Insurance Required.** The Borrowers will maintain, or cause to be maintained, insurance covering such risks and in such amounts as is required by the Master Indenture.

ARTICLE VII
RESERVED

ARTICLE VIII
SPECIAL COVENANTS

Section 8.01. **No Warranty of Condition or Suitability by the Authority.** Neither the Authority nor the Trustee makes any warranty, either express or implied, as to the Facilities or that they will be suitable for Borrowers' purposes or needs or that the proceeds of the Series 2020 Bonds will be sufficient to pay the Cost of the Project.

Section 8.02. **Observance of Terms of Documents.** The Borrowers shall comply with all of the terms and conditions and covenants applicable to the Borrowers contained in this Agreement and the Indenture. At all times while the Series 2020 Bonds are secured by the 2020 Note, the Borrowers covenant to comply with the requirements of the Master Indenture.

Section 8.03. **Further Assurances.** The Authority and Borrowers agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the intention of or facilitating the performance of this Agreement, subject, however, to the terms and conditions of Section 10.06 of the Indenture.

Section 8.04. **Audits.** Each Borrower agrees that it will have its books and records audited annually, commencing with the current Fiscal Year, by an Accountant as soon as practicable after the close of such Fiscal Year, and shall furnish, on or before December 31 of the following Fiscal Year, to the Authority and the Trustee (provided that neither the Authority nor the Trustee has any obligation to review such audit report) and each rating agency which has rated the Bonds, a copy of the audit report including the Accountant's statement as to the calculation of Pledged Revenues certified by such Accountant.

Upon receipt by a Borrower of the Accountant's management letter, if any, such Borrower will notify the Authority and the Trustee, that such management letter has been received and is available for inspection by the Authority and the Trustee, at the offices of the applicable Borrower.

Section 8.05. **Filings to Protect Security Interest in Trust Estate.** The Borrowers hereby agree to file and refile such instruments as shall be necessary to preserve the lien of the Indenture upon the Trust Estate or any part thereof granted in the Indenture until the principal of and interest on the Series 2020 Bonds shall have been paid and to furnish satisfactory evidence to the Trustee of recording, registering, filing, continuation, and refiling of such instruments and of every additional instrument which shall be necessary to preserve the lien of the Indenture upon the

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costs and expenses of in-house counsel and the costs and expenses of defending or preparing to defend against any claim ("Losses") (whether asserted by the Authority, the Borrowers, any Bond Holder or any other person) that may be imposed on, incurred by, or assessed against, the Indemnitees or any of them for following any instruction or other direction upon which the Trustee is authorized to rely pursuant to the terms of the Bond Documents. In addition to and not in limitation of the immediately preceding sentence, each Borrower also covenants and agrees to indemnify and hold the Indemnitees and each of them harmless from and against any and all losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Trustee's performance under this Agreement or the Indenture provided that a court of competent jurisdiction has not determined that the Trustee has acted with gross negligence or engaged in willful misconduct. The provisions of this Section 8.10 shall survive the termination of this Agreement and the Indenture, the payment in full of the Series 2020 Bonds and the resignation or removal of the Trustee for any reason. The Borrowers may, at their cost and in their name or in the name of the Authority and/or the Trustee, prosecute or take any other action involving third persons which the Borrowers deem necessary in order to insure or protect the Borrowers' rights under this Agreement; in such event, the Authority and the Trustee will reasonably cooperate with the Borrowers, as advised by their respective Counsel, as set forth below, but at the sole expense of the Borrowers.

The Authority or Trustee, as the case may be, shall give prompt written notice to the Borrowers of any claim asserted against the Authority, its members, officers, employees, attorneys or agents or the Trustee, its officers, directors, employees or agents, when such claim becomes known and which, if sustained, may result in liability of a Borrower hereunder; provided, however, that the failure by the Authority or the Trustee to give such notice shall not relieve the Borrowers from their obligations to protect, exonerate, defend, indemnify and save the Authority and its members, officers, employees, attorneys or agents or the Trustee, its officers, directors, employees, attorneys and agents harmless as aforesaid, except to the extent that the failure to give such notice results in actual loss or damage to a Borrower; and in case any action or proceeding be brought against the Authority, its members, officers, employees or agents or the Trustee, its officers, directors, employees, attorneys or agents, by reason of any such claim, the Borrowers, upon notice as aforesaid, covenants and agrees diligently to resist or defend such action or proceedings; provided, however, that the indemnified party or parties will cooperate and assist in the defense of such action or proceeding if reasonably requested to do so by a Borrower. A Borrower shall not settle any action or proceeding involving the Authority or the Trustee without the written consent, as applicable, of the Authority and the Trustee, which consent shall not be unreasonably withheld.

Each of the Authority and the Trustee may, however, retain its own counsel and still be indemnified against the cost of employing counsel and all other reasonable expenses despite an assumption of the defense by a Borrower if the Authority or the Trustee believes in good faith that there are defenses available to it which are adverse to or in conflict with those available to Borrowers and which the Authority or the Trustee believes in good faith cannot be effectively asserted by common counsel. A Borrower is not liable for any settlement of a suit, claim, demand,

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Trust Estate or any part thereof until the principal of and interest on the Series 2020 Bonds shall have been paid.

Section 8.06. **Reserved.**

Section 8.07. **Authority of Authorized Representative of the Authority.** Whenever under the provisions of this Agreement or the Indenture the approval of the Authority is required, or Borrowers or the Trustee is required to take some action at the request of the Authority, such approval or such request shall be made by the Authorized Representative of the Authority unless otherwise specified in this Agreement or the Indenture. Borrowers or the Trustee shall be authorized to act on any such approval or request and the Authority shall have no complaint against Borrowers or the Trustee as a result of any such action taken in accordance with such approval or request. The execution of any document or certificate required under the provisions of this Agreement or the Indenture by an Authorized Representative of the Authority shall be on behalf of the Authority and shall not result in any personal liability of such Authorized Representative.

Section 8.08. **Licenses and Qualifications.** Borrowers will do, or cause to be done, all things necessary to obtain, renew and secure all permits, licenses and other governmental approvals and to comply, or cause its lessees to comply, with such permits, licenses and other governmental approvals necessary for operation of the Charter School as a Facility (as defined in the Act).

Section 8.09. **Compliance with Act 22 and the Charter.** Each Borrower covenants not to take any actions which would violate Act 22 or the School's Charter in any way that could reasonably be believed to have a materially adverse effect on the Bonds so long as any Bonds remain Outstanding.

Section 8.10. **Indemnification of Authority and Trustee.** Each Borrower agrees that the Authority and the members, officers, employees, attorneys and agents thereof shall not be liable for and each Borrower covenants and agrees to protect, exonerate, defend, indemnify and save the Authority and the members, officers, employees, attorneys and agents thereof and the Trustee, its officers, directors, employees and agents, harmless from and against any and all costs, damages or liabilities which may arise out of the issuance of the Series 2020 Bonds, the investment of a portion of the proceeds of the Series 2020 Bonds held in the funds and accounts established under the Indenture, the operation of the Mortgaged Property or arising from any breach or default on the part of the Borrowers in the performance of any covenant or agreement on the part of a Borrower to be performed pursuant to the terms of this Agreement or otherwise, provided that a court of competent jurisdiction has not determined that such indemnified parties have acted with gross negligence or willful misconduct; and from and against all reasonable costs, reasonable counsel fees, expenses and liabilities incurred in or about the defense of any such claims or actions or proceedings brought thereon. Each Borrower further agrees to pay the Trustee reasonable compensation for its services under the Bond Documents, and also all of its reasonable expenses and disbursements, including reasonable compensation for all attorneys and agents engaged by it. Each Borrower covenants and agrees to indemnify and hold the Trustee and its directors, officers, agents and employees (collectively, the "Indemnitees") harmless from and against any and all liabilities, losses, damages, fines, suits, actions, demands, penalties, costs and expenses, including out-of-pocket, incidental expenses, reasonable legal fees and expenses, the reasonably allocated

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action or proceeding effected without its written consent and Borrowers agree that they will not settle any claim or action without the written consent of the Authority or the Trustee, as applicable.

Notwithstanding anything contained herein to the contrary, the Borrowers shall not be obligated to indemnify or hold harmless the Authority or its members, officers, employees, attorneys or agents for its or their gross negligence or willful misconduct or the Trustee and the Trustee's officers, directors and employees for their or its gross negligence or willful misconduct

Section 8.11. **Nonsectarian Use.** Each Borrower agrees that, in the absence of the receipt by the Authority and the Trustee of a written opinion of nationally recognized municipal bond counsel acceptable to the Authority to the effect that such use will not affect adversely the exclusion from gross income for federal income tax purposes of interest on the Series 2020 Bonds or any other Additional Tax-Exempt Bonds and that such restriction is no longer required under the provisions of the Act, no proceeds of the Series 2020 Bonds or any other Additional Tax-Exempt Bonds shall be used to acquire, construct, install, or refinance any Facility which are intended to be used primarily for sectarian purposes. Each Borrower will comply with all applicable state and federal laws concerning discrimination on the basis of race, creed, color, sex, national origin, or religious belief and will respect, permit, and not interfere with the religious beliefs of persons working for such Borrower.

Section 8.12. **No Default Certificate.** Within 90 days after the end of each Fiscal Year, Borrowers shall furnish to the Authority and the Trustee certificates of the Borrowers' Administrative Agent stating that, to the best of their knowledge, no Event of Default under Section 10.01 hereof has occurred and is then continuing, and that neither Borrower has actual knowledge, at that time, of an event which with the passage of time or the giving of notice, or both, would constitute an Event of Default by the Borrowers under Section 10.01 hereof or an Event of Default under the Indenture, the Leases, the Master Indenture or the Mortgages, or describing any such Event of Default known to it.

Section 8.13. **Compliance With the Continuing Disclosure Agreement.** Each Borrower shall comply with, and shall cause Corporation to comply with, the disclosure requirements set forth in the Continuing Disclosure Agreement. Notwithstanding any contrary provision hereof, the failure by the Borrowers to comply with the foregoing covenant will not be an Event of Default hereunder or under the Indenture, and that the remedies of the Trustee (if it is a party to such continuing disclosure agreement) and/or Bondholders in the event of such a failure will be limited to an action for specific performance.

Section 8.14. **Nondiscrimination/Sexual Harassment Clause.** Each Borrower hereby accepts and agrees to be bound by the standard Nondiscrimination/Sexual Harassment Clause set forth in Exhibit C attached hereto. For purposes of such Nondiscrimination/Sexual Harassment Clause, the parties hereto understand that (i) this Agreement is the "contract" and (ii) there is no subcontractor for the performance of each Borrower's obligations under this Agreement.

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ARTICLE IX
**ASSIGNMENT AND PLEDGING; REDEMPTION OF
BONDS**

Section 9.01. **Assignment by Borrowers.** The Borrowers will not assign all or any part of its obligations under this Agreement to another Person or Persons; provided that the Borrowers may assign all or a part of a Borrower's obligations under this Agreement to another Person or Persons subject to compliance with the requirement of Section 7.10 of the Master Indenture and the delivery of copies of all certificates and opinions delivered pursuant to Section 7.10 of the Master Indenture to the Trustee. Every assignee shall be bound by all of the covenants and agreements of the Borrowers herein.

Section 9.02. **Assignment and Pledge by Authority.** The Authority hereby notifies the Borrowers, and the Borrowers hereby acknowledge, that all of the Authority's right, title and interest in this Agreement (except Unassigned Rights) and in the 2020 Note are being assigned without recourse and pledged to the Trustee as security for the Series 2020 Bonds. The Borrowers consent to such assignment and acknowledge that the Series 2020 Bonds are being issued in reliance by the Trustee upon the assignment of the 2020 Note and the Authority's rights under this Agreement. The Borrowers agree that they shall perform all obligations and pay all amounts due from the Authority under the Series 2020 Bonds and the Indenture so that at all times there shall be no default thereunder.

Section 9.03. **Redemption of Bonds.** Upon the agreement of Borrowers to deposit moneys into the Bond Principal Fund and the Bond Interest Fund in an amount sufficient to redeem Bonds subject to redemption, the Trustee, at the written request of Borrowers and subject to Article V of the Indenture, shall forthwith take all steps (other than the payment of the money required for such redemption) necessary under the applicable redemption provisions of the Indenture to effect redemption of all or part or the then Outstanding Bonds on the redemption date. The Borrowers covenant to give written notice of any such redemption to the Authority, the Trustee and the Master Trustee at the times required by the Bond Documents.

ARTICLE X
EVENTS OF DEFAULT AND REMEDIES

Section 10.01. **Events or Default Defined.** The following events (including the expiration of any specified time) shall be an "Events of Default" under this Agreement and the term "Event of Default" shall mean, whenever it is used in this Agreement, any one or more of the following events:

- (a) failure by Borrowers to pay the Loan Payments required to be paid under Section 5.02(a) hereof when the same shall become due and payable;
- (b) failure by Borrowers to make payments into the Debt Service Reserve Fund required to be paid under Section 5.02(b) hereof when the same shall become due and payable;

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making payments that would otherwise be made to Corporation; insurrection; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; breakage or accidents to machinery, transmission pipes or canals; pandemics resulting in ordered closure of the Corporation and loss, postponement, or delay in funding to the Corporation, or any other causes not within the control of the Corporation or the Borrowers, but specifically excluding the loss of the Charter by the Corporation due to the negligence or intentional or willful misconduct or default of Corporation.

Section 10.02. **Remedies on Default.** Subject to Section 12.06 of the Lease, whenever any Event of Default referred to in Section 10.01 hereof shall have occurred and is continuing, the Authority or the Trustee where so provided herein, may (subject to the provisions of Section 10.06 hereof) 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 under this subsection), as and to the extent provided in the Indenture, may declare the Loan Payments payable hereunder for the remainder of the term of this Agreement to be immediately due and payable, whereupon the same shall become due and payable.
- (b) The Trustee may take any action permitted under the Indenture with respect to an Event of Default, as defined thereunder.
- (c) Reserved.
- (d) The Trustee or the Authority (in the event of a failure of the Trustee to act under this subsection), as and to the extent provided in the Indenture may take whatever action at law or in equity as may appear necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance or observance of any obligations, agreements, or covenants of Borrowers under this Agreement.
- (e) Other than with respect to an Event of Default involving the Borrowers' failure to pay Loan Payments, or the Borrowers' liquidation, receivership, bankruptcy or other similar insolvency proceeding, the Trustee may, or at the request of the Registered Owners of a majority in aggregate principal amount of the Bonds Outstanding shall, appoint a consultant to make operational and other business recommendations to the Borrowers and the Corporation to improve the operations, operating profits and cash flow of the Borrowers and the Corporation, and the Borrowers will cooperate with the consultant and shall adhere to all reasonable recommendations of the consultant in these regards.

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

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

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(c) the occurrence of an "Event of Default" under any of the Indenture, the Series 2020 Bonds, the Leases, the Mortgages, the 2020 Note and the Master Indenture, beyond any applicable notice and grace period;

(d) failure by a Borrower to observe and perform any covenant, condition or agreement on its part to be observed or performed herein other than as referred to in subsections (a) through (c) of this Section, for a period of 30 days after receiving written notice, specifying such failure and requesting that it be remedied, shall have been given to Borrowers by the Authority or the Trustee; provided, with respect to any such failure covered by this subsection (d), no Event of Default shall be deemed to be continuing so long as a course of action adequate to remedy such failure shall have been commenced by the Borrowers within such 30-day period and shall thereafter be diligently prosecuted to completion and the failure shall be remedied thereby; provided, however, that such course of action must be complete within 90 days of the Borrowers receiving such written notice;

(e) the dissolution or liquidation of a Borrower, or failure by a Borrower promptly to lift any execution, garnishment, or attachment of such consequence as will impair its ability to meet its obligations with respect to its respective Facility or to make any payments under this Agreement;

(f) the entry of a decree or order for relief by a court having jurisdiction in the premises in respect of a 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 a 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; or

(g) the commencement by a 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 a 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 a Borrower generally to pay its debts as such debts become due, or the taking of corporate action by a Borrower in furtherance of any of the foregoing.

The foregoing provisions of subsection (d) of this Section are subject to the following limitations: If by reason of force majeure a Borrower is unable in whole or in part to carry out its agreements herein contained, other than the obligations on the part of Borrowers contained in Article V and in Sections 4.07, 4.08, 8.10, 8.12 and 10.04 hereof, Borrowers shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean, without limitation, the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or of the Commonwealth or any of their departments, agencies or officials or any civil or military authority; including, without limitation, so called "governmental shut downs" or other actions which result in any applicable governmental entity or agency not

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Any proceeds received by the Authority or the Trustee from the exercise of any of the above remedies, after reimbursement of any costs incurred by the Authority or the Trustee in connection therewith, shall be applied by the Trustee in accordance with the provisions of the Indenture.

If the Authority or the Trustee shall have proceeded to enforce their rights under this 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, Borrowers, the Authority and the Trustee shall be restored to their respective positions and rights hereunder, and all rights, remedies and powers of Borrowers, the Authority and the Trustee shall continue as though no such proceedings had been taken.

Section 10.03. **No Remedy Exclusive.** Subject to the provisions of Section 10.06 hereof, no remedy herein 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 this 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 or the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than notice required herein or by applicable law. Such rights and remedies given the Authority hereunder shall also extend to the Trustee and the Registered Owners of the Bonds, subject to the Indenture.

Section 10.04. **Agreement to Pay Attorneys' Fees and Expenses.** After the occurrence of and during the continuance of an Event of Default, if the Authority or the Trustee should employ attorneys or other advisors or incur other expenses for the collection of Loan Payments or the enforcement of performance or observance of any obligation or agreement on the part of Borrowers herein contained, Borrowers agree that they will on demand therefor, attaching reasonable supporting documentation indicating that the amount billed has been paid or incurred, pay to the Authority or the Trustee, as the case may be, the reasonable fee of such attorneys and advisors and such other reasonable expenses incurred by the Authority or the Trustee. After such a demand, amounts so billed shall be paid by Borrowers within ten (10) days after receipt of the bill by Borrowers. The obligations of Borrowers arising under this Section shall continue in full force and effect for a period of one (1) year following the final payment of the Bonds or the termination of this Agreement for any reason, notwithstanding the final payment of the Bonds or the termination of this Agreement for any reason.

Section 10.05. **Waiver.** In the event any agreement contained in this 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 hereunder. In view of the assignment of the Authority's rights in and under this Agreement to the Trustee under the Indenture, the Authority shall retain its rights under Sections 5.02(f), 10.04, 8.10 and 12.14 hereof and its right to receive certain reports and perform certain discretionary acts as described herein, but shall have no power to waive any Event of Default hereunder without the consent of the Trustee. Notwithstanding the foregoing, a waiver of an Event of Default under the Indenture or a rescission of a declaration of acceleration of the Bonds and a rescission and annulment of its

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consequences shall constitute a waiver of the corresponding Event of Default under this 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 hereunder or impair any right consequent thereon.

Section 11.06. **No Duty to Mitigate Damages.** The Authority and the Trustee shall not be required to do any act whatsoever or exercise any diligence whatsoever to mitigate the damages to Borrowers if any Event of Default shall occur and be continuing hereunder.

ARTICLE XI PREPAYMENT OF THE LOAN

Section 11.01. **General Option to Prepay the Loan.** Borrowers shall have and are hereby granted the option exercisable at any time to prepay all or any portion of the Loan by depositing with the Trustee an amount of money or securities to the extent permitted by Section 7.01 of the Indenture the principal and interest on which when due, will be equal to (giving effect to the credit, if any, provided by Section 11.03 hereof) an amount sufficient to pay the principal of (in integral multiples of \$5,000), premium, if any, and interest on any portion of the Bonds then Outstanding under the Indenture. The exercise of the option granted by this Section shall not be cause for redemption of Bonds unless such redemption is permitted at that time under the provisions of the Indenture and Borrowers specifies the date for such redemption. In the event Borrowers prepay all of the Loan pursuant to this Section, pay all reasonable and necessary fees and expenses of the Trustee, and all other obligations and liabilities to the Trustee, accrued and to accrue through final payment of the Bonds as a result of such prepayment and all of its liabilities accrued and to accrue hereunder to the Authority through final payment of the Bonds as a result of such prepayment, and all other amounts due hereunder have been paid in full, then this Agreement shall terminate except as otherwise provided herein.

Section 11.02. **Obligation to Prepay the Loan.** All amounts due hereunder shall become immediately due and payable, without notice or demand, upon a Determination of Taxability and Borrowers shall thereafter have the immediate obligation to prepay all amounts due under this Agreement and the Loan with respect to the Bonds in whole, and not in part.

Section 11.03. **Prepayment Credits.** In the event of prepayment by Borrowers of the Loan in whole, the amounts then contained in the Bond Principal Fund, Bond Interest Fund, Issuance Expense Fund and Debt Service Reserve Fund shall be credited first to the Rebate Fund so that it is fully funded for the final payment to the federal government and then against Borrowers' prepayment obligation.

Section 11.04. **Notice of Prepayment.** In order to exercise the option granted by Section 11.01, Borrowers shall give written notice to the Trustee which shall specify therein the date of making the prepayment, which date shall be not less than 40 days nor more than 90 days from the date the notice is mailed, unless such notice or time period is waived by the Trustee. In the case of any prepayment pursuant to this Article, Borrowers shall make arrangements with the Trustee for giving the required notice of redemption, if any, of any Bonds to be redeemed and, if applicable, shall pay to the Trustee an amount of money sufficient to redeem all of the Bonds called for redemption at the appropriate price on or before the thirtieth day prior to the redemption date.

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different addresses to which subsequent notices, certificates or other communications shall be sent. The Trustee will have the right to accept and act upon electronic communications as provided in Section 9.01(y) of the Indenture.

Section 12.02. **Binding Effect.** This Agreement shall inure to the benefit of and shall be binding upon the Authority, Trustee and Borrowers, and their respective successors and assigns, subject, however, to the limitations contained in Sections 9.01, 9.02 and 12.10 hereof, and shall also inure to the benefit of all Indemnitees.

Section 12.03. **Severability.** In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 12.04. **Amounts Remaining in Funds.** It is agreed by the parties hereto that any amounts remaining in the Funds upon expiration of the term of this Agreement shall belong to and be paid to the Corporation by the Trustee.

Section 12.05. **Amendments, Changes and Modifications.** Except as otherwise provided in this Agreement or in the Indenture, this Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee. Any amendment to this Agreement shall be executed in accordance with Section 10.08 of the Indenture.

Section 12.06. **Execution in Counterparts.** This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12.07. **Governing Law.** This Agreement shall be governed and construed in accordance with the laws of the Commonwealth.

Section 12.08. **Filing.** Borrowers shall cause the security interest in the rights to receive the amounts referred to in Section 5.01 hereof granted to the Authority, the assignment of such security interest to the Trustee and the security interests otherwise described in this Agreement granted to the Trustee to be perfected by the filing of financing statements which fully comply with the Commonwealth Uniform Commercial Code in the office of the Secretary of the Commonwealth, the office of the Clerk and Recorder of the County of Philadelphia, Pennsylvania, and in such other office as is at the time provided by law as the proper place for the filing thereof. The parties further agree that, subject to the terms of the Indenture, all necessary continuation statements shall be filed by the Trustee, at the expense of and with the cooperation of Borrowers within the time prescribed by the Commonwealth Uniform Commercial Code in order to continue such security interests.

The Trustee shall not be responsible for and makes not representation as to the legality, effectiveness or sufficiency of any security document or for the creation, perfection, priority or protection of any lien securing the Bonds. The Trustee shall not be responsible for filing or for the sufficiency or accuracy of any financing statements initially filed to perfect security interests granted under the Indenture. The Trustee shall file continuation statements with respect to each UCC financing statement relating to the Trust Estate filed by the Authority at the time of the issuance of the Bonds; provided that a copy of the filed initial financing statement is timely

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Section 11.05. **Use of Prepayment Moneys.** By virtue of the assignment of the rights of the Authority under this Agreement to the Trustee, Borrowers agree to and shall pay any amount required to be paid by it under this Article directly to the Trustee (other than amounts to be paid to the Authority for its own account). The Trustee shall use the moneys so paid to it by Borrowers (other than amounts to be paid to the Trustee for its own account) as provided in this Agreement.

Section 11.06. **Acceleration of Payments; Redemption Upon Occurrence of Certain Events.** The Borrowers covenant to give written notice to the Trustee, Master Trustee and the Issuer of the following:

(a) within ten (10) days after the occurrence of any damage to or destruction of all or any portion of the Mortgaged Property by fire or any other cause or taking of all or a portion of the Mortgaged Property of a Borrower by condemnation in excess of the threshold specified in and as required by Sections 5.01 and 5.02 of the Mortgages thereof; and

(b) pursuant to Section 7.6 of the Original Master Indenture, promptly upon determination that any Net Proceeds resulting from damage to or any destruction or condemnation (or other similar taking or conveyance in lieu thereof) of any of the Mortgaged Property are to be applied to the redemption or prepayment of the 2020 Note and the 2020 Bonds.

The Borrowers further agree that any written notice to the Issuer and the Trustee of its intention to cause the redemption of Bonds shall specify the date fixed for such redemption and the principal amount of Bonds to be redeemed. The Trustee shall then provide notice of such redemption to the Bondholders in accordance with Section 5.06 of the Indenture.

On or prior to the date fixed for redemption, the Borrowers shall deposit or cause to be deposited to the Bond Principal Fund and Bond Interest Fund established under the Indenture any such Net Proceeds in an amount sufficient to effect the redemption of Bonds pursuant to Section 5.02 of the Indenture.

ARTICLE XII MISCELLANEOUS

Section 12.01. **Notices.** All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when (a) mailed by certified or registered mail, postage prepaid, (b) deposited with any nationally recognized overnight delivery service that routinely issues receipts, or (c) personally delivered by any courier service that routinely issues receipts, if to the Authority, 1500 Market Street, Suite 3500 West, Philadelphia, PA 19102, Attention: Chairperson, if to the Borrowers, c/o Philadelphia Performing Arts: A String Theory Charter School, 2600 South Broad Street, Philadelphia, PA 19145; if to the Corporation, to 2600 South Broad Street, Philadelphia, PA 19145, Attention: Chief Executive Officer; and if to the Trustee, at Two Liberty Place, Suite 2000; 50 S. 16th Street, Philadelphia, PA 19102, Attention: Global Corporate Trust. A duplicate copy of each notice, certificate or other communication given hereunder by the Authority or Borrowers shall also be given to the Trustee, the Authority, the Borrowers, the Corporation or the Trustee may, by notice hereunder, designate any further or

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delivered to the Trustee. In addition, unless the Trustee shall have been notified in writing by the Authority that any such initial filing or description of collateral was or has become defective, the Trustee shall be fully protected in (a) relying on such initial filing and descriptions in filing any financing or continuation statements or modifications thereto pursuant to this section and the Indenture, and (b) filing any continuation statements in the same filing offices as the initial filings were made. The Authority and the Borrowers shall be responsible for the customary fees charged by the Trustee for the preparation and filing of continuation statements and for the reasonable costs incurred by the Trustee in the preparation and filing of all continuation statements hereunder, including attorneys' fees and expenses. These fees shall be considered "extraordinary services" fees.

Section 12.09. **Cancellation at Expiration of Term of Agreement.** Upon the expiration of the term of this Agreement, the Authority shall deliver to Borrowers any documents and take or cause the Trustee to take such actions as may be necessary to evidence the termination of this Agreement.

Section 12.10. **No Pecuniary Liability of Authority.** No provision, covenant, or agreement contained in this Agreement, or any obligations herein imposed upon the Authority, or the breach thereof shall constitute an indebtedness or liability of the Authority within the meaning of any Commonwealth constitutional provision or statutory limitation or shall constitute or give rise to a pecuniary liability of the Authority or any member, officer or agent of the Authority or a charge against the Authority's general credit. In making the agreements, provisions and covenants set forth in this Agreement, the Authority has not obligated itself except with respect to the application of the revenues, as hereinabove provided.

Section 12.11. **No Personal Liability of Officials of the Authority, Borrowers or the Trustee.** None of the covenants, stipulations, promises, agreements and obligations of the Authority or Borrowers contained herein shall be deemed to be covenants, stipulations, promises, agreements or obligations of any official, officer, agent or employee of the Authority, the Trustee or Borrowers in his or her individual capacity, and no recourse shall be had for the payment of the principal or premium, if any, or interest on the Bonds or for any claim based thereon or any claim hereunder against the Authority, any official, officer, agent or employee, past, present or future, of the Authority, the Trustee or Borrowers, or any natural person executing any Bond, including any officer or employee of the Trustee.

In addition, no recourse shall be had for the payment of the principal of, the interest on, or the premium (if any) payable upon the redemption of, any Bonds or for any claim based thereon or on this Agreement against any successor corporation of the Authority, as such, either directly or through the Authority or any such successor corporation whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or by any legal or equitable proceeding or otherwise, all such liability of the Authority and such members, officers, agents or employees being released as a condition of and as consideration for the execution of this Agreement and the issuance of the Bonds. It is expressly agreed and understood that the obligations of the Authority hereunder, and under the Bonds and elsewhere, are solely corporate obligations of the Authority to the extent specifically limited in the Act and as further limited by this Section and that no personal liability whatsoever shall attach to or shall be incurred by the Authority or its members, officers, employees or agents, past, present or future, of the

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Authority or of any successor of the Authority, or any of them, because of such indebtedness or by reason of any obligation, covenant or agreement contained in this Agreement or in the Bonds or implied therefrom.

Section 12.12. **No Pledge of Taxing Power; Limitation of Liability.** This Agreement does not pledge the general credit nor the taxing power of the Commonwealth or the County of Philadelphia. Notwithstanding anything to the contrary herein contained, the Authority's liability under this Agreement and the Bonds shall be enforceable only out of the receipts and revenues and the real estate and other property covered by this Agreement and the rents, issues and profits thereof, and any other property mortgaged, pledged or assigned as security for the debt secured hereby, and the lien of any judgment against the Authority shall be limited thereto. Nothing herein, however, shall limit the bondholders' rights against any person, firm, partnership or corporation other than the Authority. No recourse shall be had for any claim based on this Agreement or the Bonds, including but not limited to the payment of the principal of or interest on the Bonds, against the Authority or any member, officer, agent or employee past, present or future, of the Authority or any successor body, as such, either directly or indirectly through the Authority of any such successor body, under this Agreement or any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty or by any legal or equitable proceeding or otherwise. The lien of any judgment entered on the warrant of attorney herein contained shall similarly be expressly limited to the security as aforesaid. It is understood and agreed that the Authority is not liable for the debt or any portion of the debt evidenced by the Bonds or interest thereon, this Agreement and neither is the Authority nor are the members of the Authority, the agents, attorneys or employees of the Authority, or their respective heirs, personal representatives or successors generally or personally liable in connection with any matter, cause or thing pertaining to the Bonds or the issuance thereof, this Agreement or any instruments and documents executed and delivered by the Authority in connection with the Project and/or financing thereof.

Section 12.13. **Prior Agreements Superseded.** This Agreement, together with all agreements executed by the parties concurrently herewith or in conjunction with the initial issuance of the Bonds, shall completely and fully supersede all other prior understandings or agreements, both written and oral, between the Authority and Borrowers relating to the Bonds, the lending of money and the Project.

Section 12.14. **Covenant by Borrowers with Respect to Statements, Representations and Warranties.** It is understood by Borrowers that all such statements, representations and warranties made in this Agreement shall be deemed to have been relied upon by the Authority as an inducement to issue the Bonds, and that if any such statements, representations and warranties were false at the time they were made or (with respect to those representations and warranties which are to continue) are breached during the term hereof, such misrepresentation or breach shall constitute a breach of this Agreement which may give rise to an Event of Default hereunder.

Section 12.15. **Captions.** The captions and headings in this Agreement are for convenience only and in no way define, limit, or describe the scope or intent of any provisions or sections of this Agreement.

Section 12.16. **Payments Due on Holidays.** If the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Agreement, is not

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IN WITNESS WHEREOF, the Authority and Borrowers have caused this Agreement to be executed in their respective corporate names and to be attested by their duly authorized officers, all as of the date first above written.

PHILADELPHIA AUTHORITY FOR
INDUSTRIAL DEVELOPMENT

[SEAL]

By _____
Chairperson

Attest:

By _____
Assistant Secretary

a Business Day such payments may be made or act performed or right exercised on the next succeeding Business Day unless otherwise provided herein, with the same force and effect as if done on the nominal date provided in this Agreement.

Section 12.17. **Consent.** Any consent, acceptance, or approval of the Authority or the Trustee required pursuant to this Agreement shall be delivered in writing pursuant to Section 12.01 herein and shall not be unreasonably withheld, conditioned, or delayed. If such consent, acceptance, or approval is withheld, the Authority or the Trustee, as applicable, shall state its reasons in writing and promptly deliver the same to the party so requesting such consent, acceptance, or approval, pursuant to Section 12.01 herein.

Section 12.18. **Effective Date.** This Agreement has been dated for convenience purposes only. Notwithstanding the stated date of this Agreement, this Agreement shall be effective on the date of funding of the Loan.

Section 12.19. **No Violations of Law.** Any other term or provision in this Agreement to the contrary notwithstanding (a) in no event shall this Agreement be construed as (i) depriving the Authority of any right or privilege or (ii) requiring the Authority or any director, agent, employee, representative, or advisor of the Authority to take or omit to take, or to permit or suffer the taking of, any action by itself or by anyone else, which deprivation or requirement would violate, or result in the Authority's being in violation of the Act or any other applicable state or federal law; and (b) at no time and in no event will Borrowers permit, suffer or allow any of the proceeds of the Bonds to be transferred to any Person in violation of, or to be used in any manner which is prohibited by, the Act or any other state or federal law.

Section 12.20. **Maintenance of Records.** Borrowers will, and shall cause Corporation to, maintain records relating to the use and investment of the proceeds of the Bonds, if any, and the use and operation of the Facilities for a period of four (4) years after the later of (i) payment in full of the Bonds or (ii) payment in full of any bonds issued to refund the Bonds.

Section 12.21. **Electronic Storage.** The parties hereto agree that the transaction described herein may be conducted and related documents may be stored by electronic means. Copies, telecopies, facsimiles, electronic files and other reproductions of original executed documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

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IN WITNESS WHEREOF, the Authority and Borrowers have caused this Agreement to be executed in their respective corporate names and to be attested by their duly authorized officers, all as of the date first above written.

DEMEDICI CORPORATION

By: _____
Javier Kuehnle, President of the Board of Trustees

Attest:

By: _____
Ronald Pigliacelli, Vice President of the Board of Trustees

DEMEDICI CORPORATION II

By: _____
Javier Kuehnle, President of the Board of Trustees

Attest:

By: _____
Ronald Pigliacelli, Vice President of the Board of Trustees

EXHIBIT A

FORM OF PROJECT FUND REQUISITION CERTIFICATE

Request No.:

Date:

PROJECT FUND REQUISITION CERTIFICATE

TO: U.S. BANK NATIONAL ASSOCIATION (THE "TRUSTEE") AS TRUSTEE UNDER AND PURSUANT TO THE INDENTURE OF TRUST, DATED AS OF DECEMBER 1, 2020, BY AND BETWEEN THE PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT (THE "AUTHORITY") AND THE TRUSTEE, AND THE LOAN AGREEMENT, DATED AS OF DECEMBER 1, 2020 (THE "AGREEMENT"), BY AND BETWEEN THE AUTHORITY AND DEMEDICI CORPORATION AND DEMEDICI CORPORATION II (COLLECTIVELY, THE "BORROWERS").

The undersigned Borrowers' Administrative Agent hereby requests that the following amounts be paid to the following payees for the following costs of the Project (as defined in the Agreement) (the "Costs"):

Payee and Payment Instructions	Amount	Description
--------------------------------	--------	-------------

The undersigned Borrowers' Administrative Agent hereby states and certifies that:

(a) obligations in the stated amounts have been incurred and performed at the Project and are currently due and payable and that each item thereof is a proper charge against the Project Fund and has not been the subject of a previous withdrawal from such fund;

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EXHIBIT B

FORM OF CAPITAL MAINTENANCE FUND REQUISITION

TO: U.S. BANK NATIONAL ASSOCIATION (THE "TRUSTEE") AS TRUSTEE UNDER AND PURSUANT TO THE INDENTURE OF TRUST DATED AS OF DECEMBER 1, 2020 (THE "INDENTURE"), BY AND BETWEEN THE PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT (THE "AUTHORITY") AND THE TRUSTEE, AND THE LOAN AGREEMENT DATED AS OF DECEMBER 1, 2020 (THE "AGREEMENT"), BY AND BETWEEN THE AUTHORITY AND DEMEDICI CORPORATION AND DEMEDICI CORPORATION II (COLLECTIVELY, THE "BORROWERS").

The undersigned, an authorized representative of the Borrowers hereby requests a disbursement of \$ _____ from the Capital Maintenance Fund established under the Indenture with respect to the above-referenced bonds, and certifies to the Trustee that such amount is required to pay all or any portion the Borrowers' cost of extraordinary maintenance and replacements which are required to keep the Facilities in sound condition. The undersigned acknowledges and agrees that, subsequent to such disbursement, the Capital Maintenance Fund shall be replenished in accordance with the requirements of Sections 3.03 and 3.17 of the Indenture and Section 5.02(g) of the Agreement. No Event of Default currently exists under the Agreement, the Leases, the Mortgages, the Master Indenture or the Indenture, and no facts currently exist that, with the passage of time or giving of notice or both, would constitute an Event of Default under the Agreement, the Leases, the Mortgages, the Master Indenture or the Indenture.

Dated: _____

DEMEDICI CORPORATION

By: _____
Name: _____
Title: _____

DEMEDICI CORPORATION II

By: _____
Name: _____
Title: _____

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(b) to the best of the undersigned's knowledge, there has not been filed with or served upon the Authority or Borrowers notice of any lien, right or attachment upon, or claim affecting the right of any such persons, firms or corporations to receive payment of, the respective amounts stated in such requisition which has not been released and will not be released simultaneously with the payment of such obligation;

(c) (i) obligations as stated on the requisition have been incurred, (ii) such work was actually performed or such materials or supplies were actually furnished or installed in or about the Project, (iii) if contested, bond has been made by Borrowers and (iv) either such materials or supplies are not subject to any lien or security interest or any such lien or security interest will be released or discharged upon payment of the requisition;

(d) all rights, title and interest to any and all personal property acquired with the proceeds of the requisition are vested in Borrowers;

(e) the amount remaining in the Project Fund is sufficient to pay all unpaid costs of designing, constructing, and equipping the Project or, if not, Borrowers shall cover such shortfall as required by the Agreement and Indenture;

(f) after taking into account the proposed disbursement, at least 95% of the aggregate of all disbursements of the proceeds of Series 2020 Bonds, plus earnings thereon, will have been applied to pay or reimburse Borrowers for the payment of capital costs of the Facilities; and

(g) no Event of Default currently exists under the Agreement, the Leases, the Mortgages, the Master Indenture or the Indenture, and no facts currently exist that, with the passage of time or giving of notice or both, would constitute an Event of Default under the Agreement, the Leases, the Mortgages, the Master Indenture or the Indenture.

DEMEDICI CORPORATION

By: _____
Authorized Representative

DEMEDICI CORPORATION II

By: _____
Authorized Representative

EXHIBIT C

NONDISCRIMINATION/SEXUAL HARASSMENT CLAUSE

During the term of this contract, each Borrower agrees as to itself and each owner and tenant of the Facilities controlling, controlled by or under common control with such Borrower (each of the Borrower and each such tenant, a "Contractor") as follows:

1. In the hiring of any employees(s) for the manufacture of supplies, performance of work, or any other activity required under the contract or any subcontract, the Contractor, each subcontractor, or any person acting on behalf of the Contractor or subcontractor shall not discriminate by reason of race, gender, creed, color, sexual orientation, gender identity or expression, or in violation of the *Pennsylvania Human Relations Act* (PHRA) and applicable federal laws, against any citizen of this Commonwealth who is qualified and available to perform the work to which the employment relates.

(i) Neither the Contractor nor any subcontractor nor any person on their behalf shall in any manner discriminate by reason of race, gender, creed, color, sexual orientation, gender identity or expression, or in violation of the PHRA and applicable federal laws, against or intimidate any employee involved in the manufacture of supplies, the performance of work, or any other activity required under the contract.

(ii) Neither the Contractor nor any subcontractor nor any person on their behalf shall in any manner discriminate by reason of race, gender, creed, color, sexual orientation, gender identity or expression, or in violation of the PHRA and applicable federal laws, in the provision of services under the contract.

(iii) Neither the Contractor nor any subcontractor nor any person on their behalf shall in any manner discriminate against employees by reason of participation in or decision to refrain from participating in labor activities protected under the *Public Employee Relations Act*, *Pennsylvania Labor Relations Act* or *National Labor Relations Act*, as applicable and to the extent determined by entities charged with such Acts' enforcement, and shall comply with any provision of law establishing organizations as employees' exclusive representatives.

(iv) The Contractor and each subcontractor shall establish and maintain a written nondiscrimination and sexual harassment policy and shall inform their employees in writing of the policy. The policy must contain a provision that sexual harassment will not be tolerated and employees who practice it will be disciplined. Posting this Nondiscrimination/Sexual Harassment Clause conspicuously in easily-accessible and well-lighted places customarily frequented by employees and at or near where the contracted services are performed shall satisfy this requirement for employees with an established work site.

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(v) The Contractor and each subcontractor shall not discriminate by reason of race, gender, creed, color, sexual orientation, gender identity or expression, or in violation of PHRA and applicable federal laws, against any subcontractor or supplier who is qualified to perform the work to which the contract relates.

(vi) The Contractor and each subcontractor represents that it is presently in compliance with and will maintain compliance with all applicable federal, state, and local laws, regulations and policies relating to nondiscrimination and sexual harassment. The Contractor and each subcontractor further represents that it has filed a Standard Form 100 Employer Information Report ("EEO-I") with the U.S. Equal Employment Opportunity Commission ("EEOC") and shall file an annual EEO-1 report with the EEOC as required for employers" subject to *Title VII* of the *Civil Rights Act of 1964*, as amended, that have 100 or more employees and employers that have federal government contracts or first-tier subcontracts and have 50 or more employees. The Contractor and each subcontractor shall, upon request and within the time periods requested by the Commonwealth, furnish all necessary employment documents and records, including EEO-1 reports, and permit access to their books, records, and accounts by the contracting agency and the Bureau of Diversity, Inclusion and Small Business Opportunities for purpose of ascertaining compliance with provisions of this Nondiscrimination/Sexual Harassment Clause.

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(vii) The Contractor shall include the provisions of this Nondiscrimination/Sexual Harassment Clause in every subcontract so that those provisions applicable to subcontractors will be binding upon each subcontractor.

(viii) The Contractor's and each subcontractor's obligations pursuant to these provisions are ongoing from and after the effective date of the contract through the termination date thereof. Accordingly, the Contractor and each subcontractor shall have an obligation to inform the Commonwealth if, at any time during the term of the contract, it becomes aware of any actions or occurrences that would result in violation of these provisions.

(ix) The Commonwealth may cancel or terminate the contract and all money due or to become due under the contract may be forfeited for a violation of the terms and conditions of this Nondiscrimination/Sexual Harassment Clause. In addition, the agency may proceed with debarment or suspension and may place the Contractor in the Contractor Responsibility File.

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LEASE AGREEMENT

THIS LEASE AGREEMENT (as amended or supplemented from time to time, this “*Lease*”) is dated as of December 1, 2020, effective December 11, 2020, and is entered into by and between DEMEDICI CORPORATION (the “*Lessor*”), a nonprofit corporation duly organized and validly existing under the laws of the Commonwealth of Pennsylvania (the “*Commonwealth*”), as lessor, and PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL (the “*Lessee*”), a nonprofit corporation duly organized and validly existing under the laws of the Commonwealth, as lessee. From time to time throughout this Lease, the foregoing parties shall be referred to as the “*Parties*” or a “*Party*” to this Lease.

WITNESSETH:

WHEREAS, the Lessee is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “*Code*”), which is exempt from federal taxation under Section 501(a) of the Code and a public charter school duly organized and validly existing pursuant to the Commonwealth Charter School Law, the Act of June 19, 1997, P.L. 225, No. 22, as amended (the “*Charter School Law*”); and

WHEREAS, the Lessee is authorized by Section 17-1714-A of the Charter School Law to acquire real property by lease for use as a charter school facility; and

WHEREAS, the Lessor (a) is a nonprofit corporation and an organization described in Section 501(c)(3) of the Code, which is exempt from federal taxation under Section 501(a) of the Code and (b) is authorized under its articles of incorporation and bylaws, action of its governing body and applicable law, to own and manage its properties, to own and operate school facilities in the City of Philadelphia, to conduct its affairs in the Commonwealth, to lease the Leased Property (defined below) pursuant to this Lease to the Lessee and to otherwise act in the manner contemplated herein; and

WHEREAS, Lessor has applied to the Philadelphia Authority for Industrial Development (the “*Authority*”) for the issuance of its Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project) Series 2020 (the “*Series 2020 Bonds*”) in order to finance the project described in hereinafter described Loan Agreement (the “*Project*”); and

WHEREAS, the Bonds are being issued pursuant to an Indenture of Trust dated as of December 1, 2020 (the “*Indenture*”), by and between the Authority and the Trustee and the proceeds of the Bonds are being loaned by the Authority (such loan being hereinafter referred to as the “*Loan*”) to Lessor pursuant to a Loan Agreement dated as of December 1, 2020 (the “*Agreement*” or “*Loan Agreement*”), by and between the Authority and Lessor and DeMedici Corporation II, a Pennsylvania nonprofit corporation (“*DMII*” and, together with Lessor, the “*Borrowers*”) to finance all or a portion of the Project, and Lessor agrees, therein to, among other things, pay debt service on the Bonds; and

WHEREAS, the Lessor, as Obligated Group Representative under the Master Indenture described below, has issued a promissory note (the “*2020 Note*”) in the original principal amount of \$52,405,000 under the terms of the Master Trust Indenture dated as of December 1, 2020 (the

“*Original Master Indenture*”), as supplemented by that certain Supplemental Master Trust Indenture No. 1 dated as of December 1, 2020 (the “*Supplemental Master Indenture*” and, together with the Original Master Indenture and as further supplemented and amended from time to time, the “*Master Indenture*”), among the Borrowers and U.S. Bank National Association, as master trustee (the “*Master Trustee*”), as security for the repayment of the Series 2020 Bonds; and

WHEREAS, pursuant to the Master Indenture, an Open-End Mortgage, Assignment of Leases and Income, Security Agreement and Fixture Filing, dated as of December 1, 2020 and effective December 11, 2020 (the “*Mortgage*”), the Lessor has (a) assigned to the Master Trustee all of the Lessor’s right, title and interest in, to and under this Lease, including the Base Rent and Additional Rent (defined herein) paid and payable by Lessee hereunder and (b) mortgaged and granted a security interest to the Master Trustee in the Leased Property; and

WHEREAS, the execution, delivery and performance of this Lease by the Lessee are in the best interest of the Lessee, serve a public purpose and have been duly authorized by the governing board of the Lessee; and

WHEREAS, the execution, delivery and performance of this Lease, the assignment by the Lessor to the Master Trustee, pursuant to the Master Indenture, and all right, title and interest of the Lessor in, to and under this Lease and the grant by the Lessor of a security interest to the Master Trustee, pursuant to the Agreement, and a lien against the Leased Property, pursuant to the Mortgage, are in the best interest of the Lessor and have been duly authorized by the governing body of the Lessor; and

WHEREAS, the Lessor desires to lease the Leased Property to the Lessee, and the Lessee desires to lease the Leased Property from the Lessor, pursuant to the terms and conditions and for the purposes set forth in this Lease, subject in all respects to the liens evidenced by the Mortgage.

NOW, THEREFORE, for and in consideration of the mutual covenants and the representations, covenants and warranties herein contained, the Parties hereto agree as follows:

ARTICLE I

DEFINITIONS

All words and phrases capitalized but not defined herein, shall have the meaning defined in Article I of the Indenture, Article I of the Loan Agreement and Article I of the Master Indenture. In addition, the following terms, except where the context indicates otherwise, shall have the meanings in this Lease set forth below:

“*Additional Rent*” means the following costs, fees, payments and expenses: all taxes; insurance premiums; reasonable expenses and fees of the Authority (including, without limitation, its annual fee); Trustee, Rating Agency, if any, and the Lessor (including, but not limited to, filing fees, crediting fees, licenses, permits, any legal expenses incurred by the Lessor, or its officers or directors in their official or personal capacity, as provided in Section 13.01 hereof), and other expenses of the Lessor incurred in the performance of its obligations under the 2020 Note and the Loan; Debt Service Reserve Fund payments; Rebate Fund payments; Capital Maintenance Fund payments; costs and expenses incurred by the Lessor or by its directors or officers in connection

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with any investigation, claim, demand, suit, action or proceeding relating to the activities of the Lessor, or such directors or officers in their capacity as such, in respect of the Leased Property, the Bonds, this Lease, the Agreement, the Master Indenture or any matter related thereto; and all other charges and costs, including reasonable attorneys’ fees, which the Lessee assumes or agrees to pay hereunder with respect to the Leased Property, the Bonds, this Lease, the Agreement, the Indenture, the Master Indenture or any matter related thereto. Additional Rent does not include the Base Rent.

“*Agreement*” or “*Loan Agreement*” means the Loan Agreement dated as of December 1, 2020, by and between the Authority and the Borrower, and any amendments and supplements thereto made in conformity with the requirements thereof and of the Indenture.

“*Audited Financial Statements*” means financial statements with respect to the Lessee prepared in accordance with generally accepted accounting principles which have been examined and reported on by a firm of Independent Public Accountants of recognized standing selected by the Lessee. Such financial statements may be combined or consolidated financial statements, if appropriate under generally accepted accounting principles, of the Lessee or of any consolidated or combined group of companies of which the Lessee is a member provided that consolidating or combining schedules are included in the financial statements (or as supplemental schedules incorporated within such financial statements) so that the discrete financial results of the Lessee may be identified.

“*Authority*” means the Philadelphia Authority for Industrial Development, a public instrumentality of the Commonwealth and public body corporate and politic organized and existing under the Act.

“*Base Rent Payment Date*” means one of the dates in the “Base Rent Payment Date” column in Exhibit B hereto, as from time to time amended or supplemented.

“*Base Rent*” means the base rent payments payable by the Lessee pursuant to Section 6.02 hereof and as further set forth in Exhibit B hereto, as they may be amended hereunder, during the Lease Term, which constitute the base rent payments due and payable by the Lessee for and in consideration of the right to use the Leased Property during the Lease Term.

“*Board*” means the Board of Directors of the Lessee and any successor thereto.

“*Bond Documents*” means, collectively, the Indenture, the Loan Agreement, this Lease, the Mortgage, the DCII Mortgage, the DCII Lease, the Master Indenture, the Bond Purchase Agreement and any other documents executed in connection with the issuance of the Bonds.

“*Bond Index*” means (a) with respect to any Outstanding Indebtedness, a rate equal to the lesser of (i) the rate in effect on the last day of the preceding Fiscal Year or (ii) the weighted average of actual interest rates over the preceding three year period, or if such Indebtedness has borne a variable rate for less than a three year period, the average of such lesser period; and (b) with respect to any proposed Indebtedness, the average interest rate on Outstanding Variable Rate Indebtedness for the thirty-six (36) months immediately preceding the month prior to such calculation, or if no Variable Rate Indebtedness has been Outstanding for thirty-six (36) months, by reference to an index comparable to that to be utilized in determining the interest rate for the

Variable Rate Indebtedness then proposed to be issued, or if no index is to be used, by reference to an index commonly used for obligations comparable to the Variable Rate Indebtedness then proposed to be incurred.

“*Bond Purchase Agreement*” means the Bond Purchase Agreement dated November 19, 2020, by and among the Authority, the Borrower, the Lessee and Trust Securities, Inc., as underwriter of the Series 2020 Bonds.

“*Borrower*” means, collectively, the Lessor and DCII.

“*Building*” means the building located on the Leased Property.

“*Business Day*” means any day other than a Saturday, a Sunday or a day on which banking institutions in the Commonwealth are authorized to close.

“*Capital Improvements*” means the acquisition of land, easements, facilities, and equipment (other than ordinary maintenance repair, or replacement), and the construction, alteration, or reconstruction of improvements, betterments, and extensions which, under generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board, are property chargeable as capital items.

“*Capitalized Lease*” means at any time any lease which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the Lessee at such time.

“*Charter*” means the Commonwealth of Pennsylvania Charter granted to the Lessee by the School District of Philadelphia on August 21, 2014, as amended and/or renewed from time to time.

“*Collateral*” has the meaning set forth in Section 13.17 of this Lease.

“*Commonwealth*” means the Commonwealth of Pennsylvania.

“*Consultant*” means an Independent, recognized consulting firm which is appointed by the Lessee for the purpose of passing on questions relating to the financial affairs, management or operations of the Lessee, has a favorable reputation for skill and experience in performing similar services in respect of entities of a comparable size and nature and is not unsatisfactory to the Lessor. If any Consultant’s report or opinion is required to be given with respect to matters partly within and partly without the expertise of any consultant, such Consultant may rely upon the report or opinion of another Consultant possessing the necessary expertise.

“*Days Cash On Hand*” means the number determined as of the end of each Fiscal Year (unless otherwise specified) by dividing (a) Unrestricted Cash and Investments, by (b) the quotient of (i) Operating Expenses, excluding depreciation and amortization but including interest expense, divided by (ii) the number of calendar days in the applicable Fiscal Year as of the date of testing.

“*DCII*” means DeMedici Corporation II, a nonprofit corporation duly organized and validly existing under the laws of the Commonwealth of Pennsylvania.

"DCII Lease" means that certain Lease Agreement dated as of December 1, 2020, between DCII and the Lessee, and any amendments or supplements hereto, including all exhibits hereto and thereto.

"DCII Mortgage" means the Open-End Mortgage, Assignment of Leases and Income, Security Agreement and Fixture Filing dated as of December 1, 2020, from DCII in favor of the Master Trustee, as the same may be amended from time to time.

"Debt Service Coverage Ratio" means, for any specified period, the ratio determined by dividing the Net Income Available for Debt Service for such period (including amounts due under the DCII Lease) by the Debt Service Requirements.

"Debt Service Requirements" means, for any specified period, the amounts payable or the payments required to be made with respect to principal and interest on outstanding Long Term Indebtedness during such period (calculated in such a manner that no portion of Long Term Indebtedness is included more than once), including, but not limited to, the following:

(a) the amounts payable as lease rentals with respect to any and all Long Term Indebtedness incurred in the form of Capitalized Leases, including Base Rentals payable hereunder,

(b) the amounts payable to any or all holders of Long Term Indebtedness other than Capitalized Leases and obligations hereunder (or to any trustee or paying agent for such holders) in respect of the principal of such Long Term Indebtedness (including mandatory redemptions or prepayments of principal) and the interest on such Long Term Indebtedness; provided, however, that

(i) the amounts deemed payable in respect of interest do not include interest on any Long Term Indebtedness which is funded from the proceeds thereof;

(ii) the amounts payable with respect to Long Term Indebtedness do not include amounts in any debt service reserve fund available and required to be applied in the year of final maturity of such Long Term Indebtedness;

(iii) the amounts payable with respect to Long Term Indebtedness do not include principal or interest on Long Term Indebtedness to the extent legally defeased pursuant to the terms of the documents under which such Long Term Indebtedness has been incurred or to the extent payable from funds available under an Escrow Deposit; and

(iv) the amounts payable with respect to Long Term Indebtedness is subject to adjustment and recalculation as and to the extent permitted or required by Section 10.12 and, in the case of Indebtedness for which there is a related Qualified Derivative, Section 10.12(h) hereof.

"Effective Date" means December 11, 2020.

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(a) all indebtedness or obligations of the Lessee for borrowed moneys, for the payment of money to any Person other than the Lessee, including guaranties, whether due and payable in all events or upon the performance of work, possession of property or satisfaction of other specified conditions, or which has been incurred or assumed in connection with the acquisition of property or services by a member of the Lessee;

(b) all indebtedness, no matter how created, secured by property of the Lessee whether or not such indebtedness is assumed by the Lessee;

(c) the liability of the Lessee under any lease of real or personal property which is properly capitalized on the balance sheet of the Lessee in accordance with generally accepted accounting principles in the United States on the date of execution of this Master Indenture;

(i) all obligations the Lessee, including any obligation to make a loan, guarantying, or in effect guarantying, directly or indirectly, in any manner whatsoever, any obligation of any Person, which obligation would constitute Indebtedness if incurred by the Lessee, including any Guaranty; and

(ii) installment sale obligations of the Lessee.

Notwithstanding the foregoing, the term "Indebtedness" does not include (A) Non-Recourse Indebtedness; (B) trade payables incurred in the ordinary course of business; (C) any obligation under a line of credit, letter of credit, standby bond purchase agreement or similar liquidity or credit facility to the extent that such liquidity or credit facility has not been used or drawn upon but shall include the initial and annual fees of the issuer of such facility to the extent payable by the Lessee; and (D) any Qualified Derivative.

"Indenture" means the Indenture of Trust dated as of December 1, 2020, by and between the Authority and the Trustee, including any indentures supplemental thereto made in conformity therewith, pursuant to which the Bonds are authorized to be issued and secured.

"Independent" means, with respect to any Person, one which is not and does not have a partner, director, officer, member or substantial stockholder who is a member of the Board of the Lessee or an Affiliate, or an officer or employee of the Lessee or Affiliate; provided that the fact that a Person is retained regularly by or transacts business with the Lessee or Affiliate will not, in and of itself, cause such Person to be deemed an employee of the Lessee or Affiliate for the purposes hereof.

"Independent Public Accountant" means an Independent, nationally recognized accounting firm which is appointed by the Lessee for the purpose of examining and reporting on or passing on questions relating to the financial statements of the Lessee, has all certifications necessary for the performance of such services, has a favorable reputation for skill and experience in performing similar services in respect of entities of a comparable size and nature and is not unsatisfactory to the Lessor.

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"Escrow Deposit" means a segregated escrow fund or other similar fund, account or deposit, irrevocably held in trust, of cash and/or Government Obligations the principal of and interest on which, as and when received, will be in an aggregate amount sufficient, as verified by an Independent Public Accountant, to timely pay all or a portion of the principal of, premium, if any, and interest on Indebtedness, as the same becomes due or payable on the date(s) for payment of the same, whether at maturity or upon redemption, following delivery of irrevocable instructions to redeem such Indebtedness.

"Event of Default" means one or more events as defined in Section 12.01 hereof.

"Fiscal Year" means the Lessee's fiscal year, which begins on July 1 of any year and ends on June 30 of the following year.

"Force Majeure" means, without limitation, the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or of the Commonwealth or any of their departments, agencies or officials or any civil or military authority; including, without limitation, so called "governmental shut downs" or other actions which result in any applicable governmental entity or agency not making payments that would otherwise be made to Lessee; insurrection; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; breakage or accidents to machinery, transmission pipes or canals; pandemics resulting in ordered closure of the Leased Property and loss, postponement, or delay in funding to the Lessee, or any other causes not within the control of the Lessee, but specifically excluding the loss of the Charter by the Lessee due to the negligence or intentional or willful misconduct or default of Lessee.

"Government Obligations" means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Gross Revenues" means all income and revenues directly or indirectly derived by the Lessee from its operations, including without limitation, School District Payments and other funding received by virtue of the charter granted to the Lessee, rentals from any leases and subleases of the Leased Property, and all gifts, grants, bequests and contributions (including income and profits therefrom) made to the Lessee to the extent not specifically restricted by the donor or maker (including specifically the federal government, the Commonwealth or local governmental unit) thereof to a particular purpose inconsistent with their use for the payments required hereunder.

"Hazardous Substance" means, at any time, (a) any "hazardous substance" as defined in §101(14) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (42 U.S.C. §9601 et seq.) as amended at such time; and (b) any additional substances or materials which at such time are classified or considered to be hazardous or toxic under applicable federal, state or local laws, regulations, orders, judgments, decrees, agreements, authorizations, consents, licenses, permits and other governmental restrictions and requirements which apply to the Leased Property.

"Indebtedness" means, without duplication:

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"Lease" means this Lease Agreement, dated as of December 1, 2020, by and between the Lessor and the Lessee and any amendments or supplements hereto, including all exhibits hereto and thereto.

"Lease Term" means the term during which the Lessee is the lessee of the Leased Property under this Lease as provided in Section 4.01 hereof. Certain provisions of this Lease survive the expiration or end of the Lease Term as provided in Section 4.01(c) hereof.

"Leased Property" means the real property described in Exhibit A hereto and known as 2632 South Broad Street and 2630 South Broad Street, Philadelphia, Pennsylvania 19145 and all improvements now or in the future located thereon, as from time to time amended or supplemented, together with all other property that may be designated as part of the Leased Property in any amendment or supplement hereto, less any property damaged, destroyed or condemned as provided in Sections 9.01 and 9.02 hereof.

"Lien" means any mortgage, pledge, security interest, lien, judgment lien, easement, or other encumbrance on title, including, but not limited to, any mortgage or pledge of, security interest in or lien or encumbrance on any Property of the Lessee which secures any Indebtedness or any other obligation of the Lessee, or which secures any obligation of any Person other than an obligation to the Lessee.

"Long-Term Indebtedness" means all Indebtedness other than Short Term Indebtedness.

"Management Consultant" means a management consultant, certified public accountant or other financial or educational professional experienced in the operation, management and/or financing of charter schools and having a favorable reputation for skill and experience in the field of public or private school management and financial consultation, in any case acceptable to a majority in principal amount of the Holders of the Outstanding Obligations.

"Master Trustee" means U.S. Bank National Association, Philadelphia, Pennsylvania, in its capacity as the master trustee under the Master Indenture, or any successor trustee under the Master Indenture.

"Mortgage" means the Open-End Mortgage, Assignment of Leases and Income, Security Agreement and Fixture Filing dated as of December 1, 2020 but effective December 11, 2020, from the Lessor in favor of the Master Trustee, as the same may be amended from time to time.

"Net Income Available for Debt Service" means, for any period of determination thereof, subpart (a) below LESS subpart (b) below,

(a) all of the Gross Revenues of the Lessee for such period except the following:

(i) 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 hereunder or to any Operating Expenses of the Lessee because of restrictions or designations imposed by the donor or maker of the gift, grant, bequest or contribution at the time of the making thereof;

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(ii) any extraordinary gains or losses resulting from the extinguishment of Indebtedness and any profits or losses which would be regarded as extraordinary items under generally accepted accounting principles;

(iii) gains or losses resulting from the sale, exchange or other disposition of capital assets not in the ordinary course of business;

(iv) unrealized gains or losses, or temporary and other-than-temporary losses resulting from the periodic valuation of investments;

(v) any gains or losses resulting from changes in the fair value of Qualified Derivatives or similar agreements and any payments received by the Lessee from a Qualified Derivative which are taken into account in calculating the Debt Service Requirements;

(vi) proceeds of insurance policies, other than policies for business interruption insurance, maintained by or for the benefit of the Lessee, and any condemnation or any other damage award received by or owing to the Lessee;

(vii) proceeds of any Indebtedness permitted by this Lease; and

(viii) any payments received by the Lessee pursuant to a Qualified Derivative that are taken into account in calculating Debt Service Requirements.

(b) All Operating Expenses of the Lessee for such period except the following:

(ix) Base Rent and Additional Rent (apart from those payable pursuant to Section 5(b)(ii) hereof and excluded from Operating Expenses) payable hereunder;

(x) Debt Service Requirements and any payments made by the Lessee pursuant to a Qualified Derivative that are taken into account in calculating Debt Service Requirements;

(xi) any allowance for depreciation or amortization; and

(xii) non-cash expenses and reserves accrued during such period for self-insurance purposes.

“Non-Recourse Indebtedness” means any indebtedness, the holder of which has no claim for any payments in respect thereof against the general credit of the Lessee or against all or any portion of the Leased Property or the Collateral.

“Notes” means the 2020 Note and any additional Notes issued by the Lessor under the Master Indenture.

“Obligations” has the meaning specified in the Master Indenture.

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“Requirement of Law” means any applicable federal, state or local statute, ordinance, rule or regulation, any judicial or administrative order (whether or not on consent), request or judgment, any common law doctrine or theory, any provision or condition of any permit required to be obtained or maintained, or any other binding determination of any governmental authority relating to the ownership or operation of property, including but not limited to any of the foregoing relating to environmental, health or safety matters, and as to the Lessee, including but not limited to the Charter School Law.

“School District” means the School District of Philadelphia in which resides the parents or the guardians of a child who is enrolled in Lessee and who is included in the average daily membership of the school district for the purpose of providing basic education funding and special education funding payments to Lessee.

“School District Payments” means any and all payments made to or on behalf of the Lessee, by the Commonwealth or the School District, which are permitted to be used as Gross Revenues, as the same may be amended, modified or replaced.

“Short Term Indebtedness” means as of the date of determination thereof, all Indebtedness maturing on demand or within one year after the date as of which such determination is made (excluding the current portion of any Long Term Indebtedness and excluding any Indebtedness renewable or extendable at the option of the debtor absolutely or conditionally for a period or periods ending more than one year after the date of such determination, whether or not theretofore extended or renewed).

“Subordinated Indebtedness” means any Indebtedness of the Lessee which is expressly made subordinate and junior in right of payment to the payment of Rentals (other than Additional Rent payable pursuant to Section 6(b)(II) hereof) due and to become due with hereunder so that in the event that any Subordinated Indebtedness is declared or otherwise becomes due and payable because of the occurrence of an event of default with respect thereto, (a) the Lessor shall be entitled to receive payment in full of such Rentals before the holders of the Subordinated Indebtedness shall be entitled to receive any payment on account of such Subordinated Indebtedness as a result of such event of default, (b) no holder of Subordinated Indebtedness, or any trustee acting on such holder’s behalf, shall be entitled to exercise any control over proceedings to enforce the terms and conditions of this Lease without the prior consent of the Lessor and (c) the other terms and conditions of such subordination are satisfactory to the Lessor in its discretion.

“Trustee” means U.S. Bank National Association, Philadelphia, Pennsylvania, in its capacity as the paying agent, the registrar and the trustee under the Indenture, or any successor trustee under the Indenture.

“Unrestricted Cash and Investments” means, as determined by reference to the Audited Financial Statements most recently available (unless otherwise specified), the sum of cash, cash equivalents and unrestricted marketable or liquid securities and investments of the Lessee, but excluding proceeds of Indebtedness and trustee-held funds, reserves, deposits or set-asides and posted collateral (A) derived from or for the payment of Indebtedness, including debt service, construction and reserve funds or (B) created to meet an obligation or potential obligation of the Lessee other than with respect to costs of operations or improvements, including but not limited

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“Officer’s Certificate” means a certificate signed by an Authorized Officer of the Lessee. Any Officer’s Certificate which relates (i) to any financial test or ratio shall set forth in reasonable detail 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; or (ii) which relates to the operations of the Lessee shall be approved by the Board of Trustees and shall set forth in reasonable detail the basis for the findings set forth herein.

“Operating Expenses” means fees and operating expenses of the Lessee, including lease payments under operating leases (including, without duplication, Base Rent and Additional Rent due and payable under this Lease and the DCII Lease), maintenance, repair expenses, utility expenses, real estate taxes, insurance premiums, administrative and legal expenses, miscellaneous operating expenses including fees paid to a Management Consultant, advertising and promotion costs, payroll expenses (including taxes), the cost of material and supplies used for current operations of the Lessee, the cost of vehicles, interest expense, equipment leases and service contracts, taxes upon the operations of the Lessee not otherwise mentioned herein, 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 Lessee; provided, however, “Operating Expenses” shall not include (i) those expenses which are actually paid from any revenues of the Lessee which are not Gross Revenues, (ii) amounts paid from moneys in the Capital Maintenance Fund under the Indenture, (iii) except as provided above in this definition, charges for the accumulation of appropriate reserves for bad debt, depreciation and amortization, or (iv) any non-cash accruals such as those related to the GASB 68 accounting standard.

“Opinion of Counsel” means a written opinion of an attorney or firm of attorneys selected by the Lessee.

“Permitted Encumbrances” has the meaning described in Section 7.02 hereof.

“Permitted Use” means the use as a charter school, the operation of programs sponsored or run by Lessee and other lawful purposes incidental thereto, and for no other purpose.

“Property” means any and all land, leasehold interests, buildings, machinery, equipment, hardware, and inventory of the Lessee, 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 Lessee, whether real or personal, and wherever situated and whether now or hereafter acquired.

“Qualified Derivative” means an interest rate swap, cap, collar, floor, forward option, or other hedging agreement, arrangement or security, however denominated, entered into with a Qualified Provider with respect to Indebtedness incurred by the Lessee.

“Qualified Provider” means a financial institution which is a party to a Qualified Derivative and whose long term credit rating (or the long term credit rating of any guarantor thereof) is in one of the three highest rating categories (ignoring gradations within each category) of any rating agency (as of the date of execution of this Lease: Moody’s - above Baa1; S&P - above BBB+; Fitch - above BBB+).

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to, for (i) liability (including malpractice) exposure, self-insurance or “captive” insurer commitments, (ii) pension or retirement fund purposes and (iii) held to secure payments due on a Qualified Derivative. For the purposes of calculations of the liquidity requirements of Section 10.08(b) hereof, an unrestricted contribution from a third party or affiliate will be treated as being made during the period of such calculation so long as the unrestricted contribution is made prior to the date the applicable Officer’s Certificate is required to be delivered with respect to such calculation.

“Variable Rate Indebtedness” means any Long-Term Indebtedness, the rate on interest on which is subject to change on a periodic basis; provided, however, that Long-Term Indebtedness shall not be deemed to be Variable Rate Indebtedness if the rate of interest thereon is subject to change solely by reason of the occurrence of an event of default, the conversion of the Indebtedness to tax-exempt debt, the loss of any applicable exemption of such interest from income taxation, or any other contingency which was not reasonably expected to occur at the time of incurrence.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

Section 2.01. Representations, Covenants and Warranties of the Lessee. The Lessee represents, covenants and warrants, for the benefit of the Lessor, and its successors and assigns, including without limitation, the Trustee, the Master Trustee and the Holders of the Outstanding Obligations as follows:

(a) The Lessee is and shall remain, a nonprofit corporation and a public charter school duly organized and validly existing under the Charter School Law. The Charter is and shall remain in full force and effect for the term of this Lease. The Lessee is authorized by Section 17-1714-A of the Charter School Law (i) to lease the Leased Property from the Lessor pursuant to this Lease and (ii) to execute, deliver and perform its obligations under this Lease. The execution, delivery and performance of this Lease have been duly authorized by the Lessee and, to the best of its knowledge, the Lease is a legal, valid and binding agreement of the Lessee, enforceable against the Lessee in accordance with its terms, subject only to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights generally and equitable principles, whether considered at law or in equity.

(b) Nothing in this Lease shall be construed as diminishing, unlawfully delegating or otherwise restricting any of the governmental authority of the Lessee. Nothing in this Lease shall be construed to require the Lessee to operate the Leased Property other than as lessee and under the requirements of this Lease.

(c) The execution, delivery and performance of this Lease are in the best interests of the Lessee, serve a public purpose and have been duly authorized by the Lessee.

(d) None of the execution and delivery of this Lease, the fulfillment of or compliance with the terms and conditions of this Lease or the consummation of the transactions contemplated by this Lease: (i) conflicts with or results in a breach of; (A) the

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terms, conditions or provisions of the Lessee's Charter, (B) to the best of its knowledge, any Requirement of Law, (C) any material restriction or any agreement or instrument to which the Lessee is now a party or by which the Lessee is bound; (ii) constitutes a default under any of the foregoing; or (iii) except as specifically provided or permitted in this Lease and the Master Indenture, results in the creation or imposition of a lien or encumbrance whatsoever upon any of the Leased Property or assets of the Lessee.

(e) Except as previously disclosed, there is no litigation or proceeding pending or, to the knowledge of the Lessee, threatened against the Lessee or any other Person affecting the right of the Lessee to execute and deliver this Lease, the ability of the Lessee to make the payments required hereunder or the ability of the Lessee otherwise to comply with its obligations under this Lease.

(f) To the best knowledge of the Lessee, except as disclosed in writing to the Lessor and the Master Trustee: (i) since the Lessee first occupied the Leased Property, the Leased Property has at all times been operated in substantial compliance with all Requirements of Law; (ii) all licenses, consents and permits required by Requirements of Law in respect of the Lessee and/or the Leased Property have been or will be obtained and are in full force and effect and the Lessee is or will be in substantial compliance with the material terms and conditions of such permits; (iii) there is no pending litigation, investigation, administrative or other proceeding of any kind before or by any governmental authority or other Person relating to, or alleging, any violation of any Requirements of Law in connection with the Lessee and/or the Leased Property and there are no grounds on which any such litigation, investigation or proceedings might be commenced against the Lessee; (iv) the Leased Property is not subject to any judgment, injunction, writ, order or agreement respecting any Requirements of Law; (v) there is no Hazardous Substance located on, in or under the Leased Property in violation of any Requirements of Law; (vi) there has been (to Lessee's actual knowledge) no disposal of any Hazardous Substance on, from, into or out of the Leased Property in violation of any Requirements of Law; and (vii) there has been (to Lessee's actual knowledge) no spillage, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leeching, dumping, disposing, depositing or dispersing of any Hazardous Substance, into the indoor or outdoor environment from, into or out of the Leased Property including, but not limited to, the movement of any such items through or in the air, soil, surface water, ground water from, into or out of the Leased Property or the abandonment or discard of barrels, containers or other open or closed receptacles containing any such items from, into or out of the Leased Property in violation of any Requirements of Law.

(g) The Leased Property complies in all material respects with applicable zoning and safety ordinances.

(h) The Lessee shall maintain proper books and records and accounts of its operations substantially in accordance with generally accepted accounting principles, as in effect from time to time, consistently applied.

(i) The Leased Property shall be used and operated substantially in accordance with all Requirements of Law.

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(p) Neither the representations of the Lessee contained in this Lease, the Limited Offering Memorandum, the Bond Purchase Agreement and the Tax Certificate, nor any oral or written statements, furnished by the Lessee, nor written statements furnished on behalf of the Lessee, to the Authority, Trustee, Master Trustee, bond counsel, the Underwriter or Underwriter's counsel in connection with the transactions contemplated hereby, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained herein or therein not misleading. There are no known facts that the Lessee has not disclosed to the Authority, Master Trustee, Trustee or the Underwriter of the Bonds in writing that materially and adversely affect or in the future will (so far as the Lessee can now reasonably anticipate) materially and adversely affect the properties, business, prospects, profits, or condition (financial or otherwise) of the Lessee, or the ability of the Lessee to perform its obligations under this Lease and the Tax Certificate or any documents or transactions contemplated hereby or thereby.

(q) The Lessee shall deliver prompt written notice to the Lessor and the Master Trustee of the occurrence or existence of any known event or state of facts which, with the passage of time or the giving of notice or both, would constitute an Event of Default under this Lease.

(r) Reserved.

(s) The Lessee shall use all the Leased Property solely for the Permitted Use and for no other purpose and shall procure all required licenses and permits, and not use the Leased Property in violation of any laws, ordinances, orders or regulations of any public authority or of any insurer, Board of Fire Underwriters, or similar insurance rating bureau having jurisdiction over the Leased Property or in a manner which may be injurious to or adversely affect the general character of the Leased Property, and not conduct any auction, fire, going out of business, bankruptcy or similar sale.

(t) Reserved.

(u) If supplied by Lessor, the Lessee shall pay Lessor, as they become due, all charges for utilities for the Leased Property or, if required by Lessor, contract for same in Lessee's name.

(v) The Lessee shall not overload, damage or deface the Leased Property; and properly store and dispose of all trash using services (if any) designated by Lessor.

(w) The Lessee shall not take any intentional act that Lessee knows will prevent Lessor from obtaining, or makes void or voidable, any insurance, or creates extra premiums for or increases the rate of, Lessor's insurance, and if Lessee causes extra premiums or increased rates, Lessee will pay the additional cost to Lessor upon demand.

(x) The Lessee shall not act in any manner which prevents Lessor from obtaining, or causes the revocation of, any license, permit, authority, or other document necessary for Lessor to operate the Building, and if as a direct or indirect result of Lessee's business an addition to or change in the Building facilities is required by Law, Lessee shall pay for the addition or change.

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(j) The governing board of the Lessee has determined that the Leased Property is necessary and essential in the Lessee's operations and that entering into this Lease is in the best interest of the Lessee.

(k) The Lessee will recognize economic and other benefits by leasing the Leased Property.

(l) The Lessee shall provide written notice to the Master Trustee and the Lessor immediately (but in any case not later than 15 days) in the event the Lessee receives notice from its chartering organization of any of the following with respect to the Lessee's Charter: (i) the Charter is recommended for revocation, (ii) revocation proceedings are commenced, (iii) the Charter is revoked, (iv) the Charter is not renewed, or (iv) any other notice that it believes will materially impede upon or has the potential to impede upon the Lessee's Charter, including, but not limited to, any and all notice of claims the Lessee receives in connection with the Lessee's Charter.

(m) The Lessee is currently in compliance with and in the future will comply with all applicable federal and state nondiscrimination laws.

(n) The Lessee shall comply with the provisions of the Continuing Disclosure Agreement dated as of December 1, 2020 (the "*Continuing Disclosure Agreement*"), by and among the Borrower, the Lessee and Digital Assurance Certification LLC, as dissemination agent, executed in connection with the issuance of the Series 2020 Bonds.

(o) The Lessee is and will remain an organization described in Section 501(c)(3) of the Code that is exempt from federal taxation under Section 501(a) of the Code. The Lessee is, and has received a determination letter classifying it as, an organization (i) described in Section 501(c)(3) of the Code which is exempt from federal income taxation under Section 501(a) of the Code (except with respect to "unrelated business taxable income" within the meaning of Section 512(a) of the Code) and (ii) which is not a "private foundation" as defined in Section 509(a) of the Code. Such determination letter has not been modified, limited, revoked or superseded. The Lessee has not received any indication or notice, written or verbal, from representatives of the Internal Revenue Service (the "*IRS*") to the effect that its exemption under Section 501(c)(3) of the Code has been modified, limited, revoked, or superseded, or that the IRS is considering modifying, limiting, revoking or superseding such exemption. The Lessee is in compliance with all of the terms, conditions and limitations, if any, contained in its determination letter. There has been no change in the facts and circumstances represented to the IRS as a basis for receiving, and which formed the basis on which the IRS issued the determination letter relating to the Lessee's status as an organization described in Section 501(c)(3) of the Code and as an organization which is not a "private foundation" as defined in Section 509 of the Code of a nature or to a degree as would warrant any action by the IRS to modify, limit, revoke or supersede such determination letter of the Lessee. No administrative or judicial proceedings are pending or threatened which may, in any way, adversely affect the classification of the Lessee as an organization (i) described in Section 501(c)(3) of the Code which is exempt from federal income taxation under Section 501(a) of the Code and (ii) which is not a "private foundation" as defined in Section 509 of the Code.

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(y) The Lessee shall comply in all material respects with all reasonable policies, programs and measures instituted from time to time by Lessor in order to comply with any applicable codes, rules or regulations relating to the conservation and/or preservation of energy or energy related services, whether mandatory or voluntary, provided that, if voluntary, such policies, programs and measures are (i) comparable to those being generally instituted by lessors of other buildings (of comparable construction) in the general area in which the Building is located, (ii) are appropriate to a building of construction similar to the building in which the Leased Property is located, (iii) are not at Lessee's cost, (iv) do not increase Lessee's cost.

Section 2.02. Representations, Covenants and Warranties of the Lessor. The Lessor represents, covenants and warrants, for the benefit of the Lessee, the Master Trustee, and the Holders of the Outstanding Obligations, as follows:

(a) The Lessor (i) is a nonprofit corporation and an organization described in Section 501(c)(3) of the Code, which is exempt from federal taxation under Section 501(a) of the Code and (ii) is duly organized, existing and subsisting under the laws of the Commonwealth, is possessed of full power to purchase, own, hold and lease (as owner, lessee and lessor) real and personal property, has all necessary power to borrow money from the Authority pursuant to the Agreement, to lease the Leased Property to the Lessee pursuant to this Lease, and to execute, deliver and perform its obligations under the Agreement, the Master Indenture, the 2020 Note and this Lease, and has duly authorized the execution, delivery and performance of its obligations under the Master Indenture, the 2020 Note, the Agreement and this Lease.

(b) The Lessor shall at all times maintain its corporate existence and maintain, preserve and renew all the rights and powers provided to it under its certificate of organization, bylaws, action of its governing body and applicable law.

(c) This Lease is enforceable against the Lessor in accordance with its respective terms, subject only to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and equitable principles, whether considered at law or in equity.

(d) The Leased Property shall be leased by the Lessor in accordance with all Requirements of Law.

(e) Neither the execution and delivery of this Lease, the fulfillment of or compliance with the terms and conditions hereof, or the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions and provisions of any restriction or any agreement or instrument to which the Lessor is now a party or by which the Lessor is bound or constitutes a default under any of the foregoing.

(f) Except as specifically provided in the Master Indenture and this Lease, the Lessor shall not assign the Master Indenture or this Lease, its rights to payments from the Lessee or its duties and obligations hereunder or thereunder to any other person, firm, corporation or other entity.

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ARTICLE III

DEMISING CLAUSE

The Lessor demises and leases the Leased Property to the Lessee, and the Lessee leases the Leased Property from the Lessor in accordance with the provisions of this Lease, for use solely as an educational facility and purposes ancillary thereto, and for no other purpose, subject only to Permitted Encumbrances, to have and to hold for the Lease Term.

ARTICLE IV

LEASE TERM

Section 4.01. Lease Term.

(a) The Lease Term shall commence on the Effective Date and end on June 15, 2050, subject to earlier termination in accordance with this Lease, including, without limitation, Article XII hereof.

(b) Except for the Lessee's obligations that expressly survive the expiration or end of the Lease Term, the expiration or end of the Lease Term shall terminate all unaccrued obligations of the Lessee under this Lease and shall terminate the Lessee's rights of possession under this Lease; provided however, all obligations of the Lessee that have accrued hereunder prior to such termination or expiration shall continue until they are paid, performed and discharged in full.

(c) Except as Lessor directs in writing, Lessee shall remove its goods, effects, signs, trade fixtures, and peaceably yield-up the Leased Property, broom-clean and in good order, repair and condition at the end of the Lease Term, with all repairs, excluding painting but including patching to the Leased Property required by such removal, having been made, and all exposed or unconnected utility lines having been capped. If Lessee fails to remove its Property or to make such repairs by the end of the Lease Term, Lessor may remove and store Lessee's Property in a public warehouse at Lessee's expense, and make the repairs, and Lessee promptly shall reimburse Lessor for its costs.

ARTICLE V

ENJOYMENT OF LEASED PROPERTY

The Lessor hereby covenants that during the Lease Term and so long as the Lessee does not commit an uncured Event of Default which is continuing, the Lessee shall peaceably and quietly have and hold and enjoy the Leased Property without suit, trouble or hindrance from the Lessor, except as expressly required or permitted by this Lease and subject to the terms, covenants, conditions and provisions of this Lease, the Permitted Encumbrances, the Mortgage and the Master Indenture. The Lessor, and all claiming by, through or under Lessor, shall not interfere with the quiet use and enjoyment of the Leased Property by the Lessee during the Lease Term so long as no Event of Default shall have occurred. The Lessor, and all claiming by, through or under Lessor, shall, at the request of the Lessee and at the cost of the Lessee, join and cooperate fully in any legal

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Service Reserve Fund, from the amounts for the payment of Additional Rent, such amounts as are required to restore the amount on deposit in the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement. The Lessee hereby expressly agrees to pay to the Lessor, as Additional Rent, all costs and expenses incurred by the Lessor in connection with any investigation, claim, demand, suit, action or proceeding relating to the activities of the Lessor or the Lessee in respect of the Leased Property, the Master Indenture, the Agreement, this Lease, the Bonds or any matter related thereto. Notwithstanding the foregoing, with respect to payments due in connection with sums due in connection with obligations under the Loan Agreement, the Indenture and the Master Indenture, such payments shall not be duplicative of any payments made by Lessee with respect thereto under the DCII Lease, it being understood and agreed that the Lessee shall receive credit against the payments due under this Lease for any payments made with respect to the DCII Lease and the aggregate of all sums paid under both this Lease and the DCII Lease shall equal the sums due hereunder and if either such lease is cancelled or terminated the total sums due hereunder shall not be diminished in any regard.

(II) The Lessee and the Lessor may agree on the payments of other Additional Rent hereunder if the Lessee and the Lessor deliver to the Master Trustee an Officer's Certificate certifying that, for the applicable Fiscal Year, after taking into account such proposed Additional Rent, the Lessee will be in compliance with all financial and other covenants contained in this Lease and that no Event of Default exists under this Lease, and that with such Additional Rent, the Lessor will be in compliance with all financial and other covenants contained in the Master Indenture and that no event of default exists under the Master Indenture. Payment of Additional Rent pursuant to this paragraph will be subordinate to the payment of Base Rent.

(c) School District Payments. While the Bonds are Outstanding, Lessee shall direct the School District and the Commonwealth, as applicable, to pay all School District Payments directly to the Master Trustee, in accordance with Section 6.2(a)(iii) of the Master Indenture, to facilitate the timely payment of Base Rent and Additional Rent under this Section 6.02.

(d) Fees. The Lessee shall pay into a reserve fund established and held by the Lessor on the first day of each calendar month during the Lease Term monies which, when added to all such other monies paid into such reserve fund during a calendar year, are sufficient to pay all other fees of the Master Trustee and the Trustee coming due during such calendar year to the extent not already included in Base Rent or Additional Rent. The monthly deposits to be paid in the reserve fund established under this Section 6.02(d) for any calendar year shall be in an amount as determined at the beginning of such calendar year by the Lessor and Lessee and monies on deposit in such reserve fund shall only be used to pay all fees of the Master Trustee and the Trustee as the same become due. Notwithstanding the foregoing, with respect to payments due under this Section 6.02(d), such payments shall not be duplicative of any payments made by Lessee with respect thereto under the DCII Lease, it being understood and agreed that the Lessee shall receive credit against the payments due under this Lease for any payments made with respect to the DCII Lease and the aggregate of all sums paid under both this Lease and the DCII

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action in which the Lessee asserts its right to such possession and enjoyment, or which involves the imposition of any taxes or other governmental charges on or in connection with the Leased Property. In addition, the Lessee may, at its own expense, join in any legal action affecting its possession and enjoyment of the Leased Property and shall be joined in any action affecting its liabilities hereunder.

ARTICLE VI

PAYMENTS BY THE LESSEE

Section 6.01. Reserved.

Section 6.02. Base Rent and Additional Rent.

(a) Base Rent. The Lessee shall pay or cause to be paid Base Rent directly to the Master Trustee for the account of the Lessor during the Lease Term, on the Base Rent Payment Dates, without notice or demand. The Base Rent during the Lease Term shall be in the amounts set forth in Exhibit B hereto, as from time to time amended or supplemented, including in connection with the issuance of any Notes under the Master Indenture. The amount of Base Rent, together with the Base Rent payable under the DCII Lease, shall be recalculated by the Lessor in the event of issuance of any Notes, any partial redemption of any Notes prior to maturity and to reflect any credits against installment payments due from the Lessor under the Loan Agreement. Notwithstanding the foregoing, the Base Rent specified under this Section 6.02(a) shall not be duplicative of any payments made by Lessee with respect thereto under the DCII Lease, it being understood and agreed that the Lessee shall receive credit against the payments due under this Lease for any payments made with respect to the DCII Lease and the aggregate of all sums paid under both this Lease and the DCII Lease shall equal the sums due hereunder and if either such lease is cancelled or terminated the total sums due hereunder shall not be diminished in any regard.

(b) Additional Rent. (I) The Lessee shall pay Additional Rent during the Lease Term as herein provided. With the exception of any Additional Rent that are required to be paid by Lessee to a specified party pursuant to Section 8.03 and Section 9.03 below, the Additional Rent during the Lease Term shall be estimated annually by the Lessor and the Lessee and such estimate shall be in an amount sufficient to pay the following costs during the next ensuing Fiscal Year; (i) the reasonable fees and expenses of the Authority, the Master Trustee and the Trustee; (ii) payments into the Debt Service Reserve Fund required by Section 3.08 of the Indenture; (iii) payments into the Rebate Fund required by Section 3.20 of the Indenture; (iv) payments into the Capital Maintenance Fund required by Section 3.17 of the Indenture and Section 5.02(g) of the Agreement; (v) the cost of insurance premiums for the Leased Property, unless otherwise paid by Tenant; and (v) all other costs included in the definition of, or expressly required to be paid by the Lessee as Additional Rent hereunder. The Lessee hereby agrees that, to the extent that Debt Service Reserve Fund monies are applied pursuant to Section 3.09 of the Indenture or, to the extent that, for any other reason, the amounts in any account within the Debt Service Reserve Fund are less than the Debt Service Reserve Fund Requirement, the Lessee shall promptly pay to the Trustee in accordance with Section 5.02(b) of the Agreement, for deposit in the Debt

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Lease shall equal the sums due hereunder and if either such lease is cancelled or terminated the total sums due hereunder shall not be diminished in any regard.

(e) Absolute Net Lease. This Lease shall be deemed and considered to be an "absolute net lease" or "triple net lease" and the Lessee shall pay absolutely all ownership, operation, maintenance, repair, replacement and other costs of the Leased Property during the Lease Term, including the Base Rent. Additional Rent and all other payments required hereunder, free of any deductions, and without abatement, deduction or setoff.

Section 6.03. Manner of Payment.

(a) The Base Rent and any Additional Rent payable to the Master Trustee, as assignee of the Lessor, shall be paid by lawful money of the United States of America to the Master Trustee and for deposit in accordance with the Master Indenture. All Additional Rent shall be paid by the Lessee on a timely basis directly to the Person to which such Additional Rent are owed (except that the payment of the Master Trustee's fees shall be made to the Master Trustee as provided in Section 6.02(d) herein). The obligation of the Lessee to pay the Base Rent and Additional Rent required under this Article and other provisions hereof, during the Lease Term, shall be absolute and unconditional, and payment of the Base Rent and Additional Rent shall not be abated for any reason, including without limitation, by reason of accident or unforeseen circumstances. Notwithstanding any dispute between the Lessee and the Lessor, the Master Trustee, the Trustee, any Holder of Outstanding Obligations, any contractor or subcontractor retained with respect to the Leased Property, or any other person, the Lessee shall, during the Lease Term, make all payments of Base Rent and Additional Rent when due and shall not withhold any Base Rent or Additional Rent pending final resolution of such dispute (except to the extent permitted by Sections 7.02 and 8.03 hereof with respect to certain Additional Rent), nor shall the Lessee assert any right of set-off or counter-claim against its obligation to make such payments required hereunder; provided, however, that the making of such payments shall not constitute a waiver by the Lessee of any rights, claims or defenses which the Lessee may assert. No action or inaction on the part of the Lessor or the Master Trustee shall affect the Lessee's obligation to pay Base Rent and Additional Rent during the Lease Term, provided such payment, in itself, shall not be construed as a waiver or release of any and all rights of the Lessee.

(b) Upon the issuance of the Series 2020 Bonds, Lessee shall send a written notice to the Commonwealth and the School District then making School District Payments to Lessee directing that all School District Payments are to be paid to an account of Lessee held by the Master Trustee and transferred on a daily basis to the Revenue Fund established under the Master Indenture, and all amounts required to be paid by Lessee to the Master Trustee pursuant to Section 6.02(a) and (b) hereof shall be deposited therein.

Section 6.04. Necessity of the Leased Property; Determinations as to Fair Market Value. The Lessee hereby declares its current need for the Leased Property and further determines and declares its expectation that the Leased Property will (so long as it is subject to the terms hereof) adequately serve the needs for which it is being leased throughout the stated term of this Lease. The Lessee hereby agrees and determines that the Base Rent during each year of the Lease Term

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represents not more than the fair value of the use of the Leased Property during such year, in making such declarations and determinations, the Lessee has given consideration to, inter alia, the uses and purposes for which the Leased Property will be employed by the Lessee, the benefit to the Lessee by reason of the Leased Property, and the use and occupancy of the Leased Property pursuant to the terms and provisions of this Lease.

Section 6.05. Disposition of Base Rent. Upon receipt by the Master Trustee of each payment of Base Rent, the Master Trustee shall apply the amount of each Base Rent payment in the manner and order set forth in the Master Indenture.

ARTICLE VII

TITLE TO THE IMPROVEMENTS TO THE LEASED PROPERTY; LIMITATIONS ON ENCUMBRANCES

Section 7.01. Title to the Leased Property.

(a) Any alterations, additions, renovations, improvements, or modifications to the Leased Property, or repairs or replacements thereof, shall, upon completion of construction thereof, become part of the Leased Property without payment therefor by the Lessor and shall be surrendered to the Lessor at the end of the Lease Term.

(b) The Lessee shall have no right, title or interest in the Leased Property or any alterations, additions, renovations, improvements, or modifications thereto, or repairs or replacements thereof, except as expressly set forth in this Lease.

Section 7.02. No Encumbrance or Pledge of Leased Property. Except as otherwise permitted by this Lease, the Lessee agrees that it will neither create nor suffer to be created or exist any Lien upon any of the Leased Property or the Collateral now owned or hereafter acquired by the Lessee other than Permitted Encumbrances. If any mechanic's, laborer's or materialman's lien shall at any time be filed against the Property or any part thereof, the Lessee, within fifteen (15) days after notice of the filing thereof, will cause such lien to be discharged of record by payment, deposit, bond, order of the court of competent jurisdiction or otherwise. If the Lessee shall fail to cause such lien to be discharged within the period aforesaid, then in addition to any other right or remedy, the Lessor 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 bonding proceedings, and in any such event, the Lessor shall be entitled, if the Lessor 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 Lessor and all costs and expenses incurred by the Lessor in connection therewith, together with interest thereon at the Default Rate from the respective dates of the Lessor's making of the payments and incurring of the costs and expenses, shall constitute Additional Rent payable by the Lessee under this Lease and shall be paid by the Lessee to the Lessor on demand.

Permitted Encumbrances shall consist of the following:

(a) The Liens created by this Lease;

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

(j) 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 Lessee 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

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

Section 7.03. Compliance With Requirements of Law. The Lessee shall at all times use and operate the Leased Property, or cause the Leased Property to be used and operated, such that (a) the Leased Property at all times shall be used and operated in substantial compliance with all Requirements of Law; (b) all permits required by Requirements of Law in respect of the Leased Property shall be obtained and maintained in full force and effect and the Lessee shall comply with the material terms and conditions of such permits; (c) there shall be no Hazardous Substance located on, in or under the Leased Property in violation of any Requirements of Law; (d) there shall be no disposal of any Hazardous Substance on, from, into or out of the Leased Property in violation of any Requirements of Law; and (e) there shall be no spillage, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leeching, dumping, disposing, depositing or dispersing of any Hazardous Substance into the indoor or outdoor environment from, into or out of the Leased Property including but not limited to the movement of any such items through or in the air, soil, surface water, ground water from, into or out of the Leased Property or the abandonment or discard of barrels, containers or other open or closed receptacles containing any such items from, into or out of the Leased Property in violation of any Requirements of Law.

ARTICLE VIII

MAINTENANCE; TAXES; INSURANCE AND OTHER CHARGES

Section 8.01. Maintenance of the Leased Property by the Lessee.

(a) The Lessee agrees that at all times during the Lease Term the Lessee shall, at the Lessee's sole cost and expense, maintain, preserve and keep the Leased Property or cause the Leased Property to be maintained, preserved and kept, with the appearances and every part and parcel thereof, in good repair, working order and condition, subject to normal wear and tear, and that the Lessee will from time to time make or cause to be made all necessary and proper repairs and replacements. None of the Lessor, the Trustee, the

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(b) Liens granted to secure Indebtedness and Qualified Derivatives as permitted by Section 10.12;

(c) Any Lien described in Exhibit C hereto which is existing on the Effective Date, including renewals thereof, provided that no such Lien may be extended or modified to apply to any Property of the Lessee not subject to such Lien on such date, unless such Lien as so extended or modified otherwise qualifies as a Permitted Encumbrance hereunder;

(d) Any Lien on Property acquired by the Lessee pursuant to a consolidation, merger, sale or conveyance in accordance with Section 10.04 hereof 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 Lessee not subject to such Lien on such date, unless such Lien if so extended or modified otherwise qualifies as a Permitted Encumbrance hereunder;

(e) 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 Leased Property or the Collateral to material loss or forfeiture;

(f) Any judgment Lien in an amount not in excess of one hundred thousand dollars (\$100,000) against the Lessee 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 Leased Property or the Collateral or subject the Leased Property or the Collateral to material loss or forfeiture;

(g) 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;

(h) 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;

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Master Trustee or any other party shall have any responsibility in any of these matters or for the making of any additions, modifications or replacements to the Leased Property. For the avoidance of doubt, Lessee shall be responsible, at its sole cost and expense, for all operating costs, capital expenditures and repairs at the Leased Property, which by way of example shall include, without limitation, the following:

(i) the cost of repairs, replacement and maintenance of the Leased Property and all the personal property used in conjunction therewith;

(ii) all expenses incurred for heating, cooling, electricity, water, gas, sewers, refuse collection, and telephone services, and similar utility services; the cost of supplies, janitorial and cleaning, snow and ice removal, security services, landscaping maintenance and replacements, and window washing;

(iii) all premiums and fees for fire and extended coverage insurance, and commercial general liability insurance, all in amounts and coverage's (with additional policies against additional risks) as may be required by Lessor or the holder of any mortgage on the Leased Property;

(iv) the cost of any capital and non-capital alterations or improvements made to the Leased Property;

(v) management fees, fees for services of independent contractors performing duties necessary to the operation of the Building; the cost of compensation (including employment taxes and fringe benefits) of all persons who perform duties or provide services in or with respect to the Leased Property, if any; and

(vi) any other expense or charge which in accordance with generally accepted accounting and management principles would be considered an expense of maintaining, operating, or repairing the Leased Property.

(b) Notwithstanding anything to the contrary contained in this Section 8.01, upon written request from Lessee, Lessor shall seek to have the costs incurred or to be incurred by Lessee under this Section 8.01 paid for or otherwise reimbursed out of the Capital Maintenance Fund, and Lessor and Lessee shall cooperate with one another in seeking such payment or reimbursement.

Section 8.02. Modification of the Leased Property; Installation of Equipment and Personal Property of the Lessee.

(a) Lessee shall have the right, without Lessor's consent, but upon giving prior notice to the Lessor and the Master Trustee, to remodel or make Capital Improvements or other substitutions, additions, modifications or improvements to the Leased Property, at its own cost and expense except to the extent that funds are available in the Capital Maintenance Fund, and the same shall be part of the Leased Property, subject to, and shall be included under the terms of this Lease; provided, however, that (i) such Capital Improvements, remodeling, substitutions, additions, modifications and improvements shall

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not in any way damage the Leased Property or cause them to be used for purposes other than as permitted pursuant to this Lease; (ii) the Leased Property, as remodeled, improved or altered, upon completion of such remodeling, or such making of substitutions, additions, modifications and improvements, shall be of a value not less than the value of the Leased Property immediately prior to such remodeling or such making of substitutions, additions, modifications and improvements and all of such improvements or alterations shall become part of the Leased Property without amendment of this Lease; and (iii) the cost of any improvements on any individual facility comprising Leased Property that constitute Capital Improvements shall not exceed \$500,000 in any given calendar year. All work shall be commenced and prosecuted diligently to completion in a good and workmanlike manner in accordance with all applicable legal requirements.

(b) Subject to Section 13.17, the Lessee may also, from time to time in its sole discretion and at its own expense, install equipment and personal property (which are not to be fixtures) in or on the Leased Property. All such equipment and personal property shall remain the sole property of the Lessee; provided, however, that any such equipment and personal property which becomes permanently affixed to the Leased Property shall become part of the Leased Property, subject to this Lease and shall be included under the terms of this Lease. Equipment and personal property which is affixed to the Leased Property, but which can be removed without material damage to the Leased Property shall not be deemed to be permanently affixed and shall remain Lessee's Property in all respects subject to the security interest provided in Section 13.17 hereof. The Lessee may also finance the costs of acquiring or leasing equipment related to the Lessee's charter school operations. If the Lessee chooses to lease such equipment in conformity with the terms hereof, following reasonable written notice the Lessor hereby agrees to provide waivers of distraint required in connection with such lease.

Section 8.03. Taxes, Other Governmental Charges and Utility Charges. The Lessee shall use its reasonable good faith best efforts to maintain the Leased Property as exempt from ad valorem property or other taxes to the extent allowable by law. In the event that the Leased Property or any portion thereof shall, for any reason, be deemed subject to taxation, assessments or charges lawfully made by any governmental body, the Lessee shall pay the amount of all such taxes, assessments and governmental charges then due. With respect to special assessments or other governmental charges that may be lawfully paid in installments over a period of years, the Lessee shall be obligated to provide only for such installments as are required to be paid during each Fiscal Year during the Lease Term. The Lessee shall not allow any liens for unpaid taxes, assessments or governmental charges to exist with respect to the Leased Property or any portion thereof (including, without limitation, any taxes levied thereon which, if not paid, will become a charge on the rentals and receipts from the Leased Property or any portion thereof, or any interest therein, including the interest of the Lessor, the Master Trustee or the Holders of the Outstanding Obligations) or the rentals and revenues derived therefrom or hereunder. The Lessee shall also pay to the appropriate Person when due and payable, all gas, water, steam, electricity, heat, power, utility and other charges incurred in the maintenance and upkeep of the Leased Property.

Section 8.04. Provisions Regarding Casualty and Property Damage Insurance. Throughout the Lease Term, the Lessee must maintain the following policies of insurance, to the

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(g) such other insurance, in form and/or substance, as Lessor may reasonably determine from time-to-time in its reasonable discretion, including, without limitation, such insurance as Lessor is obligated to carry under the Master Indenture or the Mortgage, in connection with the Leased Property.

All the insurance coverage required by this Section may be subject to deductible clauses in such amounts as are customary for facilities of similar size and character within the Commonwealth.

All policies maintained (or caused to be maintained) by Lessee pursuant to this Section shall be taken out and maintained in generally recognized, responsible insurance companies, which may include "captive" insurance companies or governmental insurance pools, selected by the Lessee. The insurance policies required by subsections (a) and (d) of this Section shall name the Master Trustee, the Trustee and the Lessor as insureds as their respective interests may appear and shall name the Master Trustee as a mortgagee and loss payee under the terms of a standard Commonwealth mortgagee loss payable endorsement. The Trustee and the Master Trustee shall also be named as an additional insured on the policy required by subsection (b) of this Section. All insurance proceeds for losses (except for worker's compensation, fidelity insurance and liability insurance), shall be paid directly to the Master Trustee (x) if and to the extent required by the Master Indenture and shall be used in accordance with Section 7.6 of the Master Indenture, and (y) except for the proceeds of property insurance maintained on Lessee's furniture, trade fixtures and equipment, which shall be paid directly to Lessee for use by Lessee to repair or replace such furniture, trade fixtures or equipment. Such policies or certificates of insurance shall (i) provide that (except as to insurance required pursuant to subsections (c) and (e) of this Section) the insurer shall endeavor to mail 30 days' written notice to the Master Trustee of any cancellation prior to expiration of such policy, and (ii) be satisfactory in all other respects to the Master Trustee.

Notwithstanding the foregoing, the Lessee may, in its discretion, provide any of the insurance required by this Section under blanket insurance policies which insure not only the risks required to be insured hereunder but also other similar risks. The Lessee shall pay the premiums for all insurance required by this Lease directly to the applicable insurance company as part of the Additional Rent.

At least once every five years from July 1, 2020, the Lessee shall employ, at its expense, an Insurance Consultant (as such term is defined in the Master Indenture) to review the insurance coverage required by this Section and to deliver to the Lessor and the Master Trustee a report as to the adequacy of such coverage and as to its recommendations, if any, for adjustments thereto.

ARTICLE IX

CASUALTY; CONDEMNATION; USE OF PROCEEDS

Section 9.01. Casualty.

(a) Immediately upon the occurrence of any damage to or any destruction or condemnation (or other similar taking or conveyance in lieu thereof) of the Property in excess of 10% of the net book value of the property, plant and equipment of the Lessee

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extent the risks covered by such policies are not covered by the policies of insurance required by the Master Indenture:

(a) unless Lessor provides notice to Lessee that Lessor is carrying such insurance (in which case the premium shall be paid for by Lessee as Additional Rent), insurance against loss or damage to the Leased Property and all improvements therein (including, during any period of time when the Lessee is making alterations, repairs or improvements to the Leased Property, improvements and betterment's 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 greater of the full replacement value of the buildings on the Leased Property or the aggregate principal amount of the Notes then Outstanding, unless the insurable full replacement value of the buildings on the Leased Property is less than the aggregate principal amount of the Notes Outstanding, in which event, in an amount equal to the full replacement value of such buildings;

(b) commercial general liability and automobile liability insurance against claims arising in, on or about the Leased Property, including in, on or about the sidewalks or premises adjacent to the Leased Property, providing coverage limits not less than the coverage limits customarily carried by owners or operators of facilities of similar size and character within the Commonwealth;

(c) fidelity insurance or bonds on those of its officers and employees who handle funds of the Lessee, both in such amounts and to such extent as are customarily carried by organizations similar to the Lessee and operating properties similar in size and character to the Leased Properties of the Lessee;

(d) unless Lessor provides notice to Lessee that Lessor is carrying such insurance (in which case the premium shall be paid for by Lessee as Additional Rent), to the extent available, rental value insurance covering all risks as to which insurance is required pursuant to (a) above, in an amount equal to not less than the amounts required to be paid pursuant to Section 6.02(a) hereof for a period of not less than 12 months. If any such loss or damage has occurred, the Lessee shall continue to be obligated to pay the amounts required to be paid pursuant to Section 6.02(a) hereof, and any proceeds of such insurance shall be applied against all or part of such payment obligations of the Lessee;

(e) business interruption insurance in an amount equal to eighteen (18) months of the Base Rent for a 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;

(f) such other forms of insurance as the Lessee is required by law to provide with respect to the Leased Property, including, without limitation, any legally required worker's compensation insurance and disability benefits insurance; and

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immediately before the occurrence in question (excluding properties which secure Non-Recourse Indebtedness), the Lessee shall notify in writing the Lessor and the Master Trustee thereof. Any net insurance proceeds paid directly to the Lessee shall be paid to the Lessor and applied by the Lessor as required by Section 7.6 of the Master Indenture. The Lessee agrees to take all actions required to permit the Lessor to comply with the provisions of Section 7.6 of the Master Indenture.

(b) If the Property shall be damaged or destroyed by fire or other casualty, the Lessor, subject to the net insurance proceeds being made available to the Lessor for repair and restoration in accordance with the terms of the Master Indenture, shall promptly repair, restore and replace the Property to substantially the same condition as prior to the fire or other casualty.

(c) If the net insurance proceeds are applied to the redemption of all of the Obligations pursuant to Section 7.6 of the Master Indenture, this Lease shall terminate as of the date of the fire or other casualty and the rent herein reserved shall be apportioned and paid in full by the Lessee to the Lessor to such date and all rent prepaid for periods beyond such date shall forthwith be repaid by the Lessor to the Lessee and neither party shall thereafter have any liability hereunder. In the case of damage to or destruction of all or substantially all of the Property and the deposit of the net insurance proceeds in accordance with Section 7.6 of the Master Indenture, the Lessee shall pay to the Lessor for payment to the Master Trustee, an amount sufficient, together with the net insurance proceeds to redeem all of the Obligations.

Section 9.02. Condemnation.

(a) If all of the Property 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, this Lease shall terminate as of the date the right of possession vests in the condemnor (the "Taking Date"). The rent herein reserved shall be apportioned and paid in full by the Lessee to the Lessor on the Taking Date and all rent prepaid for periods beyond the Taking Date shall forthwith be repaid by the Lessor to the Lessee and neither party shall thereafter have any liability hereunder. The Lessee may prosecute its own claim by separate proceedings against the condemnor for damages legally due to the Lessee (such as leasehold improvements, fixtures and equipment, which the Lessee was entitled to remove, and moving and related expenses); provided that the same does not reduce the award payable to the Lessor.

(b) If only part of the Property is so taken or condemned, the Lessor, subject to the net condemnation proceeds being made available to the Lessor, may elect (subject to the provisions of Section 7.6 of the Master Indenture) either to (i) replace or restore the part of the Property affected by such taking or condemnation or (ii) to apply all or part of the net condemnation proceeds applied to the redemption of Obligations outstanding under the Master Indenture. Any net condemnation proceeds paid directly to the Lessee shall be paid to the Lessor and applied pursuant to Section 7.6 of the Master Indenture.

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(c) 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, this 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 this Lease shall be paid by the condemnor to the Lessor and the condemnor shall be considered a subLessee of the Lessee. If the amounts payable hereunder by the condemnor are paid in monthly installments, the Lessor 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 Lessee as rent for that period, and the Lessee shall pay to the Lessor any deficiency between the monthly amount thus paid by the condemnor and the amount of the rent, while the Lessor shall pay over to the Lessee any excess of the amount of the award over the amount of the rent.

ARTICLE X

DISCLAIMER OF WARRANTIES; OTHER COVENANTS

Section 10.01. Disclaimer of Warranties; AS-IS Condition; Surrender. NEITHER THE LESSOR, THE TRUSTEE, THE AUTHORITY, NOR THE MASTER TRUSTEE MAKE ANY WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE LEASED PROPERTY OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE LEASED PROPERTY OR ANY PORTION THEREOF. The Lessee hereby acknowledges and declares that the Lessee has fully participated in, and shall fully participate in, the design, construction, maintenance and operation of the Leased Property, and that neither the Master Trustee nor the Holders of the Outstanding Obligations has any responsibility therefor. The Lessee hereby acknowledges and agrees that neither the Lessor, the Authority, the Trustee nor the Master Trustee is under any obligation to maintain, repair, replace, alter or improve the Leased Property or to provide or render any services to Lessee prior to or at any time during the Lease Term, and the Lessee agrees to accept the Leased Property in their "AS-IS, WHERE-IS" condition as of the commencement of the Lease Term. In no event shall the Lessor, the Authority, the Trustee or the Master Trustee or the Holders of the Outstanding Obligations be liable for any direct or indirect, incidental, special or consequential damage in connection with or arising out of this Lease or the existence, furnishing, functioning or use by the Lessee of any item, product or service provided for herein. The Lessor shall, at the expiration or sooner termination of the Lease Term, promptly surrender the Leased Property in good order and condition and in conformity with the applicable provisions of this Lease, excepting only normal wear and tear.

Section 10.02. Further Assurances and Corrective Instruments. The Lessor and the Lessee agree that so long as this Lease is in full force and effect and no Event of Default shall have occurred, the Lessor and the Lessee shall have full power to carry out the acts and agreements provided herein and they shall, so far as it may be authorized by law, from time to time, execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such supplements hereto and such further instruments as may reasonably be required for collecting any inadequate or incorrect description of the Leased Property hereby leased or intended so to be, or for otherwise

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Section 10.05. Compliance with Requirements of Law. During the Lease Term, the Lessee and the Lessor shall observe and comply promptly with all current and future Requirements of Law applicable to the Leased Property or any portion thereof and all current and future requirements of all insurance companies writing policies covering the Leased Property or any portion thereof.

Section 10.06. Lessee Acknowledgment of the Bonds; Subordination of Lease. The Lessee acknowledges and consents to the assignment by the Lessor to the Master Trustee, pursuant to the Mortgage, and the subsequent assignment of the 2020 Note by the Authority to the Trustee, pursuant to the Indenture, of all rights, title and interest of the Lessor in, to and under this Lease (other than the rights of the Lessor with respect to payments for or reimbursement of certain fees and expenses under Section 6.02 hereof and indemnity rights under Section 13.01 hereof). The Lessee acknowledges and consents to the issuance and sale of the Bonds pursuant to the Indenture. The Lessee acknowledges and approves the form of the Bonds contained in the Indenture, and the authentication of the Bonds by the Trustee is hereby approved, authorized and directed.

This Lease is expressly subordinated to the lien of the Mortgage given by the Lessor to secure the 2020 Note issued under the Master Indenture. This Lease shall be subordinate to the lien of the Mortgage and any liens or security interests created under the Master Indenture and the Mortgage (now or hereafter placed upon the Leased Property) and to any and all advances made under the Mortgage and to all renewals, modifications, replacements or extensions thereof. The Lessee agrees, with respect to any of the foregoing documents, that no documentation other than this Lease shall be required to evidence such subordination. Notwithstanding the foregoing, upon the written request of the Lessor or the Master Trustee, the Lessee agrees to deliver a Subordination and Attornment Agreement reasonably acceptable to the Lessor, to the holder of the Mortgage or to any other holder of any debt incurred in connection with a refinancing of the debt evidenced by the Master Indenture.

Section 10.07. Tax Covenants.

(a) the Lessee covenants that it shall not: (i) make any use of the Leased Property; or (ii) take (or omit to take) any other action with respect to the Lease or Leased Property, if such use, action or omission would, under the Code, cause the interest on the Series 2020 Bonds or any Additional Tax-Exempt Bonds to be included in gross income for federal income tax purposes or to be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or would cause interest on the Bonds to lose its exclusion from Commonwealth taxable income under present Commonwealth law.

(b) In particular, the Lessee hereby covenants from time to time that it shall not take (or omit to take) or permit or suffer any action to be taken if the result of the same would cause the Series 2020 Bonds or any Additional Tax-Exempt Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(c) The Lessee agrees that no portion of the Leased Property shall be used primarily for sectarian purposes. The Lessee shall comply with all applicable state and federal laws concerning discrimination on the basis of race, creed, color, sex, national origin, or religious belief and will respect, permit, and not interfere with the religious

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carrying out the intention of or facilitating the performance of this Lease. This Section shall not be construed to obligate the Lessor to advance its own funds, other than proceeds of the Bonds, in order to take any action hereunder.

Section 10.03. The Lessor, Lessee or Master Trustee Representatives. Whenever under the provisions hereof the approval of the Lessor, the Lessee or the Master Trustee is required, or the Lessee, the Lessor or the Master Trustee is required to take some action at the request of the other, unless otherwise provided, such approval or such request shall be given for the Lessor by the Authorized Representative of the Lessor, for the Lessee by the Authorized Representative of the Lessee and for the Master Trustee by an authorized officer of the Master Trustee, and the Lessor, the Lessee and the Master Trustee shall be authorized to act on any such approval or request.

Section 10.04. Maintenance of Existence. The Lessee shall maintain its existence as a charter school in good standing under the laws of the Commonwealth, provided that the Lessee 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 Lessee is the surviving or resulting corporation, as the case may be (the "Survivor"), and the other corporation is a related entity to the Lessee or the Lessor, or in the event the Lessee 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 an organization described in Section 501(c)(3) of the Internal Revenue Code and exempt from federal income tax under Section 501(a) of the Internal Revenue Code, (B) assumes in writing the due and punctual payment of all obligations under this Lease, and the due and punctual performance and observance of all of the covenants and conditions of this Lease and (C) is a related entity to the Lessee or the Lessor and is a qualified charter school under the laws of the Commonwealth; and

(b) The Master Trustee, the Trustee and the Lessor receive an Opinion of Bond Counsel (of the type described in Section 10.09 of the Indenture) with respect to such merger, consolidation or transfer; and

(c) The Lessee or the Survivor shall have obtained and delivered to the Master 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; and

(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 Lessee shall deliver to the Master Trustee and the Lessor, 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 Master Trustee may reasonably require.

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beliefs of persons working for the Lessee. The Lessee agrees that the Leased Property shall not be used exclusively or predominantly for religious worship or sectarian instruction (other than the academic or comparative study of various religions or religions philosophies and student clubs).

(d) The Lessee hereby covenants and agrees that it shall not enter into any arrangement, formal or informal, pursuant to which Lessee (or any "related party" as defined in Section 1.150-1(b) of the Treasury Regulations) shall purchase the Series 2020 Bonds or any Additional Tax-Exempt Bonds. This covenant shall not prevent Lessee from purchasing Bonds in the open market for the purpose of tendering them to the Trustee for purchase and retirement.

(e) With the intent not to limit the generality of the foregoing, Lessee covenants and agrees that:

(i) Lessee (1) shall take whatever actions are necessary to preserve and maintain its status as an organization which is (A) described in Section 501(c)(3) of the Code, (B) exempt from federal income taxes under Section 501(a) of the Code (except as to unrelated trade or business income) and (2) shall not intentionally perform any acts nor enter into any agreements that would cause any revocation or adverse modification of such federal income tax status.

(ii) No changes shall be made in the Leased Property or in the use of the Leased Property which will adversely affect the excludability from gross income for federal income tax purposes of the interest on the Series 2020 Bonds or any Additional Tax-Exempt Bonds or will cause the interest on the Series 2020 Bonds or any Additional Tax-Exempt Bonds, or any portion thereof, to constitute an item of tax preference for purposes of the alternative minimum tax imposed on individuals under the Code. Lessor shall use Leased Property or cause such Leased Property to be used so long as the Series 2020 Bonds and any Additional Tax-Exempt Bonds remains unpaid so as to constitute a "project" within the meaning of the Act.

(f) The covenants set forth in this Section shall remain in full force and effect notwithstanding the defeasance of the Bonds pursuant to Article VII of the Indenture or any other provisions thereof.

Section 10.08. Financial Covenants.

(a) Debt Service Coverage Ratio.

(i) Annually, promptly upon completion of the Lessee's Audited Financial Statements, the Lessee must deliver to the Lessor and the Master Trustee an Officer's Certificate disclosing the Debt Service Coverage Ratio for the Fiscal Year then ended (calculated as of the end of such the Fiscal Year) and evidencing the calculation thereof. If the Debt Service Coverage Ratio disclosed in the Officer's Certificate required by this Section 10.08(a) is below 1.00, then, to the extent that the Lessor is required to disclose financial and operating data pursuant

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to the requirements of Master Indenture, the Lessor covenants to post or cause to be posted on EMMA (as defined in the Master Indenture) a copy of such Officer's Certificate within ten business days of delivery of the certificate to the Lessor pursuant to this Section 10.08(a).

(ii) The Lessee covenants to achieve a Debt Service Coverage Ratio at or above 1.10 for each Fiscal Year.

(iii) If, for any Fiscal Year, such Debt Service Coverage Ratio is below 1.10, the Lessee must retain, within 30 days of delivery of the Officer's Certificate required by Section 10.08(a)(i) above and at its expense, a Consultant to prepare and submit a written report within 45 days of being retained (a copy of such report is to be filed with the Lessor and the Master Trustee) including recommendations with respect to increasing income of the Lessee, decreasing Operating Expenses or other financial matters of the Lessee which are relevant to increasing the Debt Service Coverage Ratio to at least the required level, which recommendations are to take into account the extent to which the Lessee may be prevented from increasing its revenues under any existing contracts or applicable laws or regulations or due to changes in reimbursement by any School District. If, however, such failure to satisfy the requirements of this Section 10.08(a) hereof is the result solely of an extraordinary event that is not likely to recur, such report need only state such conclusion.

The Lessee agrees that promptly upon the receipt of such Consultant's report, subject to applicable requirements or restrictions imposed by law, it will revise its methods of operation and take such other actions to comply with any reasonable recommendations of the Consultant identified in its report. So long as the Debt Service Coverage Ratio is not below 1.00 for any Fiscal Year, and so long as the Lessee retains a Consultant and diligently and in good faith complies with such Consultant's reasonable recommendations (subject to applicable requirements or restrictions imposed by law) in all material respects, no Event of Default may be declared solely by reason of a violation of the requirements of Section 10.08(a)(ii) with respect to such Fiscal Year.

Notwithstanding anything herein to the contrary, the failure of the Lessee to achieve a Debt Service Coverage Ratio at or above 1.00 for any Fiscal Year will be an Event of Default hereunder.

(b) *Liquidity Covenant.*

(i) The Lessee covenants and agrees that it will maintain at least 45 Days Cash On Hand, as of the end of each Fiscal Year.

(ii) The covenant detailed in Section 10.08(b)(i) is to be tested as of June 30 of each year and evidenced by an Officer's Certificate of the Lessee delivered to the Lessor and the Master Trustee setting forth the calculation of such amount based on the results of the Audited Financial Statements of the Lessee for

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to have consented to the selection of the Consultant or have not responded to the request for consent, Lessee must engage the Consultant within two Business Days of receipt of the written notice from the Lessor. If the Holders of at least 75% of the aggregate principal amount of the Obligations Outstanding have objected to the Consultant selected, Lessee must select another Consultant.

Section 10.09. Provision of Financial and Related Information. To the extent permitted by Requirements of Law, the Lessee agrees to provide the Lessor the following information (a) quarterly unaudited reports of its financial condition including, but not limited to, its performance, profitability, liquidity, solvency, student enrollment counts and actual income and expenses as compared to the annual budget, as described in the Continuing Disclosure Agreement, (b) annual budgets by August 15th of each year, and (c) audited financial statements. Such financial information and operating data will be provided on or prior to the dates agreed by the Lessee in its Continuing Disclosure Agreement. Upon the request of the Lessor, and subject to the Lessee's obligations under law, the Lessee shall also provide to the Lessor reasonable additional information concerning the operations, financial condition and any pending material transactions of the Lessee.

The Trustee and the Master Trustee shall have no duty to review or analyze any financial statements or other information filed with the Trustee or the Master Trustee by any party. The Trustee and the Master Trustee shall not be deemed to have notice of any information contained therein or of any default or event of default which may be disclosed in any manner therein or derived therefrom.

Section 10.10. Charter Covenants. The Lessee covenants (i) to operate in accordance with the terms of an effective Charter at all times, (ii) to operate its facilities in compliance with the Charter at all times and (iii) to file for renewal of its Charter with the appropriate public body within the time required by the Charter authorizer prior to the expiration of the Charter. The Lessee shall provide notice to the Holders of the Outstanding Obligations as soon as possible, but in any event not later than ten (10) calendar days, upon receipt of any material notice or event with respect to the Charter.

Section 10.11. Educational Services Provider; Subordination of Management Fee. The Lessee agrees and acknowledges that payment of any and all management fees by the Lessee to any management company is subordinate to the payment of Base Rent and Additional Rent hereunder sufficient to pay debt service on the 2020 Note. For purposes of this Section 10.11, a management company fee will be deemed to be subordinate to the payment of Base Rent and Additional Rent if payment of such fees payable on any date may not be paid until such time as all amounts due and payable under Section 6.02 hereof have been paid. Any management company to be retained by the Lessee must agree in writing to such subordination.

Section 10.12. Limitations on Incurrence of Additional Indebtedness. The Lessee covenants and agrees in this Lease that it will not incur or assume (the terms "incur" and "assume," for the purposes hereof, mean and include the guaranteeing of, or the direct or indirect assumption of liability for, the debts of others) any Indebtedness other than as permitted by the following provisions of this Section 10.12.

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such Fiscal Year promptly upon release of such Audited Financial Statements. If on any June 30, the Lessee's Days Cash On Hand is below that required by this Section 10.08(b), the Lessee is required to retain, at its expense, a Consultant to submit a written report and make recommendations within forty-five (45) days of being retained (a copy of such report and recommendations is to be filed with the Lessor, the Master Trustee and the holders of any Obligations issued under the Master Indenture) with respect to increasing revenues of the Lessee, decreasing Operating Expenses of the Lessee or other financial matters of the Lessee which are relevant to increasing the Lessee's Days Cash On Hand to at least the level required by this Section 10.08(b). The Lessee agrees that promptly upon the receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, it will revise its methods of operation and take such other actions to comply with any reasonable recommendation of the Consultant identified in the report of the Consultant. So long as the Lessee retains a Consultant and complies with such Consultant's reasonable recommendations (subject to applicable requirements or restrictions imposed by law), no default or Event of Default may be declared solely by reason of a violation of the requirements of Section 10.08(b)(i).

(c) *Selection of Consultants.* To the extent that Lessee is required by the foregoing provisions of this Section 10.08 to engage a Consultant, the following procedures are to be followed.

(i) Within fifteen (15) days of the occurrence of any event requiring Lessee to retain a Consultant pursuant to Section 10.08 of this Lease, Lessee will select such Consultant, will notify Lessor of such selection and will cause a notice of the selection of such Consultant, including the name of such Consultant and a brief description of the Consultant, to be (i) sent to the holder of each Obligation then Outstanding under the Master Indenture and (ii) filed with EMMA (such EMMA filing being required only if the Lessor has, as of such date, agreed to provide continuing disclosure of financial and operating data pursuant to any Related Financing Documents). Such notice of the selection of such Consultant must also state the matters set forth in Section 10.08(c) of the Master Indenture.

(ii) If Lessee is advised by the Lessor or the Master Trustee that the Holders of more than 50% of the aggregate principal amount of the Obligations Outstanding under the Master Indenture have objected to the Consultant selected, Lessee must select another Consultant.

Notwithstanding the foregoing, prior to the end of the 30-day objection period, Lessee may replace the initial Consultant and select a different Consultant by sending the notices required by subparagraph (i) above. A second 30-day objection period will commence. No later than two Business Days after the end of the 30-day objection period, Lessee is to be notified by Lessor in writing of the aggregate principal amount of Obligations Outstanding held by the Holders submitting objections. If Lessee is notified that the Holders of more than 25% of the aggregate principal amount of the Obligations Outstanding have been deemed

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(a) The Lessee may incur or assume Indebtedness (taking into account all extension or renewals thereof which may be made at the sole option of the Lessee) (i) with a term which does not exceed five (5) years; and (ii) the maximum annual amount of principal and interest payable on which, when added to the maximum annual amount of principal and interest payable on any other Indebtedness of the Lessee incurred under this provision and then outstanding, does not exceed 5% of the Gross Revenues for the Fiscal Year then most recently completed for which Audited Financial Statements are available.

(b) Long Term Indebtedness. Long Term Indebtedness (which may be secured in whole or in part by the Collateral on a parity with its obligation under this Lease) may be incurred by the Lessee if it delivers both items (i) and (ii) below or (iii) below to the Lessor and the Master Trustee:

(i) an Officer's Certificate certifying that the Debt Service Coverage Ratio for the two most recent Fiscal Years with respect to which Audited Financial Statements have been delivered to the Master Trustee was at least 1.10; and

(ii) a written report, forecast or feasibility study prepared by a Consultant demonstrating and concluding that the Debt Service Coverage Ratio for each of the first three consecutive Fiscal Years following the incurrence of such Long Term Indebtedness or, if such Long Term Indebtedness is being issued to finance improvements, equipment or new facilities, the first three consecutive Fiscal Years after such improvements, equipment or new facilities are placed in service and enrollment has stabilized (i.e., enrolled students occupy at least ninety-five percent (95%) of all seats authorized by the charter), is projected to be at least 1.20 (taking into account the proposed additional Long Term Indebtedness and any Long Term Indebtedness to be refinanced thereby and provided that, the projected Net Income Available for Debt Service used to compute the Debt Service Coverage Ratio is to be adjusted to provide for any projected revenues and expenses anticipated as the result of any real or personal property acquired, constructed, or completed with the proceeds of any such Long Term Indebtedness); or

(iii) Long Term Indebtedness may be incurred by the Lessee for the purpose of refunding any Outstanding Long Term Indebtedness so as to render it no longer Outstanding; provided, however, that, an Officer's Certificate certifying that (A) the aggregate Debt Service Requirements of the Lessee will not be increased by more than 5% as a result of such new refunding Long Term Indebtedness and (B) the maximum annual amount of principal and interest payable on any other Indebtedness of the Lessee will not be increased by more than 5% as a result of such new refunding Long Term Indebtedness (the foregoing notwithstanding, Long Term Indebtedness incurred by the Lessee for the purpose of refunding any Outstanding Long Term Indebtedness may nevertheless be incurred without complying with the 5% limits of this subsection if such Long Term Indebtedness may be incurred under the provisions of Section 10.12(b)(i) and (ii) above).

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(c) Long Term Indebtedness incurred as Variable Rate Indebtedness is subject to the further provisions of Section 10.12(f) hereof.

(d) Short Term Indebtedness. Short Term Indebtedness (secured in whole or in part by the Collateral on a parity with its obligation under this Lease) may be incurred from time to time by Lessee, subject to the following conditions:

(i) the principal amount of any Short Term Indebtedness to be incurred, may not exceed \$1,000,000 and, when added to the then outstanding principal amount of all Short Term Indebtedness, Subordinated Indebtedness and Non-Recourse Indebtedness, may not exceed 7% of Gross Revenues, as set forth in the most recent Audited Financial Statements of the Lessee; provided that if such Short Term Indebtedness is being incurred to cover any cash flow needs of Lessee as a result of any delays in School District Payments, or of the failure of the Commonwealth to timely enact a state budget, the \$1,000,000 limitation set forth in this subsection (i) shall be increased to 7% of Gross Revenues, notwithstanding any outstanding principal amount of any Short Term Indebtedness or Long Term Indebtedness; or

(ii) any such Short Term Indebtedness could be incurred under the tests set forth in Section 10.12(b) hereof treating such Short Term Indebtedness as Long Term Indebtedness.

For seven (7) consecutive days within each Fiscal Year, the Lessee must reduce the aggregate principal amount of all outstanding Short Term Indebtedness, when added to the then outstanding principal amount of all Long Term Indebtedness incurred pursuant to Section 10.12(a) hereof, to 5% of the Gross Revenues, as set forth in the most recent Audited Financial Statements of the Lessee; provided that such percentage may be increased to 7% of the Gross Revenues for the immediately preceding Fiscal Year in the event of delays in School District Payments if there is delivered to the Master Trustee an Officer's Certificate to the effect that such delays are more extensive than were anticipated or could not reasonably have been anticipated by the Lessee in establishing its operating budget for the Fiscal Year in which such Short Term Indebtedness is outstanding.

(e) Variable Rate Indebtedness. For the purpose of determining the Debt Service Requirements on any Variable Rate Indebtedness, the Debt Service Requirements thereon shall be deemed to include the amount of principal maturing or subject to mandatory redemption in such year plus interest at the rate equal to the Bond Index. Additionally, the Debt Service Requirements on Variable Rate Indebtedness that is Long Term Indebtedness with respect to which the Lessee has entered into a Qualified Derivative shall be further modified in accordance with Section 10.12(h) hereof.

(f) Non-Recourse Indebtedness. The Lessee may incur Non-Recourse Indebtedness provided that: (i) at the time of incurrence, no Event of Default exists hereunder and (ii) the aggregate amount of Non-Recourse Indebtedness, together with

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into a Qualified Derivative will be deemed equal to a net rate that takes into account the regularly scheduled payments made by the Lessee and the regularly scheduled payments made to or received by the Lessee under such Qualified Derivative; provided that only such portion of the Long Term Indebtedness as corresponds to the notional amount of such Qualified Derivative will be deemed to bear interest at such net rate. So long as such Long Term Indebtedness is deemed to bear interest at a rate taking into account a Qualified Derivative, any payments made by the Lessee on such Qualified Derivative will be excluded from expenses and any payments received by the Lessee on such Qualified Derivative will be excluded from revenues.

(vi) Each Qualified Derivative shall be in such form and contain such provisions as may be permitted or required hereunder and that the Master Trustee shall have received (as of the date of issue) the following, each in form and substance satisfactory to the Master Trustee:

(i) A certified resolution of the board of the Lessee approving the execution of the Qualified Derivative and the purpose thereof.

(ii) An Officer's Certificate stating that (1) no Event of Default has occurred and is continuing hereunder and (2) the applicable requirements for entering into the Qualified Derivative under this Lease has been satisfied.

(iii) An executed counterpart or certified copy of the related Qualified Derivative and all related financing documents delivered in connection with the Qualified Derivative.

An opinion of Counsel to the effect that (1) entering into the Qualified Derivative has been duly authorized by the Lessee, (2) all applicable requirements for entering into the Qualified Derivative hereunder has been satisfied; and (3) to the best of such Counsel's knowledge, all necessary approvals of all Regulatory Bodies having jurisdiction have been obtained with respect to the entering into the Qualified Derivative.

Section 10.13. Conflict of Interest. The Lessee has (or shall prior to the issuance of the Bonds) adopted a conflict of interest policy consistent with all applicable Commonwealth and local laws governing conflicts of interest and has complied with such policy with respect to this Lease.

Section 10.14. No Cross-Collateralization. The Lessee acknowledges and agrees that School District Payments shall only be used for the benefit of the charter school located at the Leased Property and agrees that it will not use School District Payments for any other public charter schools operated or managed by a management company, if any.

Section 10.15. Security for Permitted Indebtedness. Any Indebtedness and Qualified Derivative incurred as provided in this Lease may be secured only as hereinafter provided below:

Short Term Indebtedness and Subordinated Indebtedness, that may be outstanding at any time is limited to 7% of Gross Revenues, as set forth in the most recent Audited Financial Statements of the Lessee.

(g) Subordinated Indebtedness. The Lessee may incur Subordinated Indebtedness provided that: (i) at the time of incurrence, no Event of Default exists hereunder and (ii) the aggregate amount of Subordinated Indebtedness, together with Short Term Indebtedness and Non-Recourse Indebtedness, that may be outstanding at any time is limited to 7% of Gross Revenues, as set forth in the most recent Audited Financial Statements of the Lessee.

(h) Qualified Derivatives. The Lessee may enter into any Qualified Derivative provided that: it is entered into in connection with Indebtedness permitted hereunder and the following provisions are satisfied:

(i) The regularly scheduled periodic payments and/or termination payments due on a Qualified Derivative may be granted a security interest in the Collateral on a parity basis with the obligation of the Lessee under this Lease upon written notice to the Lessor and the Master Trustee.

(ii) Determinations of Net Income Available for Debt Service are not to take into account any extraordinary gains or losses, unrealized gains or losses resulting from the periodic valuation of Qualified Derivatives, or gains or losses resulting from the termination, defeasance or discharge of any Qualified Derivative.

(iii) Any posting of collateral by the Lessee pursuant to the terms of any Qualified Derivative will be considered a "Permitted Encumbrance" for purposes of this Lease. The posting of collateral as well as any payment of any termination or settlement amounts will be considered asset dispositions subject to the provisions of this Lease.

(iv) The Lessee's liability to make termination payments pursuant to a Qualified Derivative may be either (A) a general unsecured obligation of the Lessee or (B) an obligation subordinate to or on parity with the Lessee's duty to pay Base Rent and Additional Rent hereunder; provided, however, that in the case of a subordinated termination payment, such termination payment may be payable only to the extent it does not result in the occurrence of an Event of Default hereunder. At such time as the Lessee's obligation to make a termination payment pursuant to a Qualified Derivative is no longer contingent, i.e., the condition giving rise to the payment of such termination payment has arisen and the amount of termination payment has been quantified, the amount of such termination payment, if the Lessee's duty to pay such termination payment is secured on a parity basis with the Lessee's obligation to pay Base Rent and Additional Rent hereunder, will be deemed to be Indebtedness for purposes of this Lease.

(v) For purposes of the computation of Debt Service Requirements, interest on Long Term Indebtedness with respect to which the Lessee has entered

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(a) if authorized by the provisions of Section 10.12 hereof, by a lien or security interest that is secured on a parity basis to the Lien and security interest created by this Lease;

(b) unless authorized by the provisions of Section 10.12 hereof, by a lien on and security interest in any property or interest in property, real, personal or mixed, of the Lessee other than the Property or the Collateral;

(c) 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;

(d) by a lien on and security interest in the Collateral that is subordinate to the Lien and security interest created by this Lease; or

(e) any Indebtedness which is incurred for the purpose of providing working capital, including a line of credit, may be secured by a security interest in Accounts on a parity with the security interest created therein by this Lease. Any agreement for the repayment of such Indebtedness and instruments evidencing or securing the same shall provide that all notices to be given to the lender of such Indebtedness regarding defaults by the Lessee are also to be provided to the Master Trustee, as assignee of the Lessor, and the Lessor, and shall specify the rights of the Master 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 Indebtedness.

Section 10.16. Restrictions on Guarantees. The Lessee agrees that it will not enter into any Guaranty unless such Guaranty could then be incurred by the Lessee as Long Term Indebtedness under this Lease. For purposes of the computation of the Debt Service Requirements, the aggregate annual principal and interest payments on the indebtedness subject to the Guaranty shall be included in the computation thereof.

ARTICLE XI

ASSIGNMENT, SUBLEASING, DISPOSING AND SELLING

Section 11.01. Assignment by the Lessor. The Lessor's rights under this Lease (other than its rights with respect to certain fees and expenses under Section 6.02 hereof), including rights to receive and enforce payments hereunder, have been assigned to the Master Trustee pursuant to the Mortgage. The Lessor shall not assign any rights it may have under this Lease or the Master Indenture without the prior written consent of the Master Trustee.

Section 11.02. Assignment and Subleasing by the Lessee. Except as permitted hereunder, the Lessee shall not mortgage, pledge or encumber this Lease, collaterally or otherwise. The Lessee shall not assign this Lease, or sublet the whole or any part of the Property, without on each occasion first obtaining the prior written consent of the Lessor, which consent shall not be unreasonably delayed or withheld. No subletting or assignment, with or without the Lessor's consent, shall in any way relieve or release the Lessee from liability for the performance of all terms, covenants and conditions of this Lease. Notwithstanding the foregoing, Lessee may sublease, or permit the occupancy or use of any space located at the Property on a short-term and limited basis to third

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(3rd) Persons without the Lessor's approval (either as to the sublease or use or occupancy agreement or the documentation evidencing the sublease or use or occupancy agreement) so long as Lessee complies with the provisions of Section 10.07.

Section 11.03. Sale, Lease or Other Disposition of the Leased Property. The Lessee covenants that it shall not transfer, sell Lease or dispose of Property or the Collateral to any other Person, unless permitted in this Lease.

(a) The Lessee 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, worn out or for which the Lessee has received fair market value.

(b) The Lessee may, from time to time, remove, sell or otherwise dispose of any Property or 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 for the preceding Fiscal Year.

(c) The Lessee 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 Lessee delivers to the Master Trustee:

(i) a certified copy of a resolution adopted by the governing body of the Lessee authorizing such transfer; and

(ii) an Officer's Certificate (A) to the effect that such removal, sale or other disposition shall not impair the use and operation of the Property, (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.

(d) The Lessee covenants that the net proceeds of any sale or other disposition made pursuant to paragraphs (a), (b) or (c) 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 Property or shall be used to redeem the Bonds.

(e) The Lessee may, from time to time, remove, sell or otherwise transfer any Property or the Collateral, if such Property or Collateral consists 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 Bonds.

(f) The Lessee may not under any circumstances sell, pledge, factor or otherwise dispose of any accounts receivable.

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substantial part of its Property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days;

(g) the Lessee fails to comply with the requirements of Section 10.08(a)(ii) hereof, relating to the delivery of and complying with the recommendations a report of a Consultant, or if the Debt Service Coverage Ratio is less than 1.0 for any Fiscal Year.

(h) the estate or interest of the Lessee in the Leased Property shall be levied upon or attached in any proceeding and such process shall not be vacated or discharged within 60 days after such levy or attachment; or

(i) a default caused by the Lessee occurs under the DCII Lease or the Bond Documents, beyond any applicable notice and cure periods.

Section 12.02. Remedies on Default. Whenever any Event of Default referred to in Section 12.01 hereof shall have happened and be continuing, the Master Trustee, acting as assignee of the Lessor, may, or at the request of a majority in principal amount of the Holders of the Outstanding Obligations shall, without any further demand or notice, exercise one or any combination of the following remedies:

(a) terminate the Lease Term, without any right on the part of the Lessee to reinstate its rights under this Lease by the payment of any amount due or by the performance of any obligation, term or covenant broken, and give notice to the Lessee to vacate and surrender the Leased Property within 10 calendar days from the date of such notice, and if the Lessee does not surrender possession to the Lessor. The Lessor shall have the right to recover possession of the Leased Property with legal process and to the extent permitted by Requirements of Law, breaking locks and replacing locks, and removing Lessee's and any third party's property therefrom, and making any disposition thereof as the Lessor may deem commercially reasonable;

(b) reenter and take possession of the Leased Property in accordance with applicable law, repossess the same, expel the Lessee and those claiming through or under the Lessee and remove the effects of both or either, using such force for such purposes as may be lawful and necessary, without being liable for prosecution, without being deemed guilty of any manner of trespass, and without prejudice to any remedies for arrears of Base Rent, Additional Rent or other amounts payable under this Lease or as a result of any preceding breach of covenants or conditions;

(c) enter the Leased Property in accordance with Requirements of Law, breaking open locked doors, if necessary, to effect entrance, without liability to action or prosecution for damages for such entry or for the manner thereof, for the purpose of distraining or levying and or any other purposes, and take possession of and sell all goods, chattels, fixtures, furnishings and equipment of the Lessee at auction, on three (3) days' notice served in person on the Lessee or left on the Leased Property, and retain the proceeds thereof on account of the Lessee's obligations hereunder; and the Lessee hereby forever remises, releases and discharges the Lessor, and its agents, from all claims, actions, suits,

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ARTICLE XII

EVENTS OF DEFAULT AND REMEDIES

Section 12.01. Events of Default Defined. Any one of the following events (including the expiration of any specified time) shall constitute an "Event of Default" under this Lease:

(a) failure by the Lessee to pay any Base Rent during the Lease Term when due and payable hereunder, and such failure continues for ten (10) days of the date when due;

(b) failure by the Lessee to pay Additional Rent during the Lease Term when due and payable hereunder, and such failure continues for ten (10) days after notice is given to the Lessee by the Lessor;

(c) failure by the Lessee to maintain its Charter pursuant to the Charter School Law; provided, however, that if the Lessee (i) continues to operate as a charter school pursuant to the Charter School Law, (ii) continues to receive School District Payments or other funding and (iii) continues to pursue a renewal of its charter or timely appeal of the termination of its charter in good faith, an Event of Default shall not be deemed to occur;

(d) failure of the Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to elsewhere in this Section 12.01, for a period of 30 days after written notice, specifying such failure and requesting that it be remedied shall be given to the Lessee by the Trustee or the Lessor (any notice sent by the Trustee to the Lessee shall also be sent to the Lessor, but the Trustee shall have no liability if it fails to provide such notice), provided, however, that no Event of Default shall be deemed to be continuing so long as a course of action adequate in the judgment of the Lessor to remedy such failure shall have been commenced within such 30-day period and shall thereafter be diligently prosecuted to completion and the failure shall be remedied thereby, provided, however, that such course of action must be complete within 90 days of the written notice that has been given to the Lessee;

(e) the Lessee shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its Property or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of its creditors, or shall fail to pay its debts as they become due, or shall take any action in furtherance of any of the foregoing;

(f) an involuntary case or other proceeding shall be commenced against the Lessee seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any

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damages, and penalties, for or by reason or on account of any entry, distraint, levy, appraisalment or sale;

(d) to pursue any and all other rights and remedies available under Commonwealth law, in law or in equity, including, without limitation, taking possession and selling any and all of Lessee's real or personal property upon which the Lessor or its assignees has a Lien hereunder or under the Master Indenture or the Mortgage;

(e) lease or sublease all or any portion of the real property included in the Leased Property;

(f) collect or bring action for Base Rent, Additional Rent and all other sums payable by the Lessee for the remaining Lease Term as Lessee in arrears, or file a Proof of Claim in any bankruptcy or insolvency proceeding for such Base Rent, Additional Rent and other sums due, or institute any other proceedings, whether similar or dissimilar to the foregoing, to enforce payment thereof;

(g) with or without terminating this Lease, but with legal process, re-enter and re-possess the Leased Property, or any part thereof and lease or sublease the same to any person or entity upon such terms and conditions as Lessor, or the Trustee on behalf of the Lessor, in its sole discretion, shall deem reasonable, for a term within or beyond the Lease Term;

(h) proceed as a secured party under the provisions of the Uniform Commercial Code against the goods, furniture, fixtures, chattels and equipment if any, in which the Lessor has a security interest;

(i) other than with respect to an Event of Default involving the Lessee's failure to pay Base Rent or Additional Rent, or the Lessee's liquidation, receivership, bankruptcy or other similar insolvency proceeding, appoint a consultant at the expense of the Lessee to make operational and other business recommendations to the Lessee (and the Lessor) to improve the operations, operating profits and cashflow of the Lessee (and the Lessor), and the Lessee (and the Lessor) will cooperate with the consultant and shall adhere to all appropriate recommendations of the consultant in these regards; or

(j) take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the Leased Property under this Lease, the Mortgage and the Master Indenture.

Notwithstanding anything to the contrary contained in this Lease, so long as Lessee is actively operating a charter school in the Leased Property, Lessee shall not be required to vacate the Leased Property following an uncured Event of Default, and any termination of this Lease or Lessee's right of possession of the Leased Property by Lessor pursuant to this Section 12.02 or elsewhere shall not be effective, until the earlier of (i) five (5) business days after the end of Lessee's then-current school year, if the uncured Event of Default occurs during a school semester, or (ii) the end of the fall semester if the uncured Event of Default occurs after the end of the spring semester but prior to the beginning of the fall semester.

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No expiration or termination of this Lease pursuant to this Section 12.02, and no repossession of the Leased Property or any part thereof pursuant to this Section 12.02 or otherwise shall relieve the Lessee of its liabilities and obligations hereunder, all of which shall survive such expiration, termination or repossession, and the Trustee, on behalf of the Lessor may, at Lessor's written direction, sue for and collect Base Rent, Additional Rent and any other charges due hereunder at any time and from time to time as and when such charges accrue.

Section 12.03. No Remedy Exclusive; Obligation to Mitigate Damages.

No remedy herein conferred upon or reserved to the Trustee on behalf of the Lessor is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Bond Documents or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee, on behalf of the Lessor, to exercise any remedy reserved in this Article, it shall not be necessary to give any notice, other than such notice as may be required in this Article.

If an Event of Default occurs, neither the Lessor nor the Trustee shall have any obligation to have the Leased Property available for reletting or otherwise endeavor to relet or mitigate damages.

Section 12.04. Waivers. Any failure of the Lessee or the Lessor to enforce any remedy allowed for the violation of any provision of this 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 Lessor from the Lessee after the termination of this Lease shall in any way (a) alter the length of the Term or of the Lessee's right of possession hereunder, or (b) after the giving of any notice, reinstate, continue or extend the Term or affect any notice given to the Lessee 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 Property, the Lessor may receive and collect any rent due, and the payment of said rent shall not waive or affect said notice, suit or judgment

Section 12.05. Reserved.

Section 12.06. Lessee's Right to Cure an Event of Default under the Bond Documents. In the event of any act or omission by the Lessor under this Lease or the Bond Documents which would, either immediately or after the lapse of time, cause the Lessor to be in default or give the Master Trustee, including the Master Trustee acting for the Lessor, the right to terminate any part of this Lease, or to claim a partial or total default hereunder, or to exercise any self-help remedies, the Master Trustee shall not exercise any such right or remedy until the Master Trustee has delivered to Lessor the greater of either: (i) thirty (30) days prior written notice; or (ii) such applicable notice and cure period as expressly provided in the Bond Documents, of such act or omission (the "Lessor Cure Notice"), to cure the same, and contemporaneously provide a copy of the Lessor Cure Notice to Lessee. If the Lessor does not cure said default(s) as provided in the Lessor Cure Notice, then thereafter the Master Trustee, including the Master Trustee acting for the

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service that routinely issues receipts: if to the Lessee, 2600 South Broad Street, Philadelphia, PA 19145; if to Lessor, c/o Philadelphia Performing Arts: A String Theory Charter School, 600 South Broad Street, Philadelphia, PA 19145, Attention: Chief Executive Officer; and if to the Master Trustee, at Two Liberty Place, Suite 2000, 50 S. 16th Street, Philadelphia, PA 19102, Attention: Global Corporate Trust - Relationship Manager. The Lessee, the Lessor and the Master Trustee, may by written notice, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. Copies of all notices given by or to the Lessee or the Lessor shall be sent simultaneously to the Trustee.

Section 13.03. Binding Effect. This Lease shall inure to the benefit of and shall be binding upon the Lessor and the Lessee and their respective successors and assigns, subject, however, to the limitations contained in Article XI hereof, and shall also inure to the benefit of the Trustee, the Master Trustee and the other entities indemnified pursuant to Section 13.01 of this Lease.

Section 13.04. No Individual Liability. All covenants, stipulations, promises, agreements and obligations of the Lessee or the Lessor, as the case may be, contained herein shall be deemed (o) to be the covenants, stipulations, promises, agreements and obligations of the Lessee or the Lessor, as the case may be, and not of any member, director, officer, employee, servant or other agent of the Lessee or the Lessor in his or her individual capacity, and no recourse shall be had on account of any such covenant, stipulation, promise, agreement or obligation (including, without limitation, any obligations relating to payment of principal of, redemption premium, if any, or interest on the Bonds), or for any claim based thereon or hereunder, against any member, director, officer, employee, servant or other agent of the Lessee or the Lessor or any natural person executing this Lease, the Master indenture or my related document or instrument.

Section 13.05. Force Majeure. If either party shall be delayed, hindered in or prevented from the performance of any act required hereunder by reason of Force Majeure (excluding specifically the payment of Base Rent and Additional Rent due hereunder), then performance of such act shall be excused for the period of the delay and the period for the performance of any such act shall be extended for a reasonable period, in no event to exceed a period equivalent to the period of such delay.

Section 13.06. Amendments, Changes and Modifications. Except as otherwise provided in this Lease or the Master Indenture, subsequent to the effective date of this Lease and prior to its expiration or earlier termination, this Lease may not be effectively amended, changed, modified or altered without the written consent of the Master Trustee and other than by the execution of a subsequent document in the same manner as this Lease is executed which may be evidenced by a recorded document in the real property records of the Clerk and Recorder of the county in which the Leased Property is located.

Section 13.07. Events Occurring on Days that are not Business Days. If the date for making any payment or the last day for performance of any act or the exercising of any right under this Lease is a day that is not a Business Day, such payment may be made, such act may be performed or such right may be exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in this Lease.

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Lessor, will not exercise any such right or remedy until the Master Trustee has delivered to Lessee thirty (30) days prior written notice of the Lessor's failure to cure such default(s) (the "Lessee Cure Notice"), and Lessee shall have a reasonable period, not to exceed an additional thirty (30) days, commencing on the last day on which the Lessor could cure such default under the Lessor Cure Notice, in which to do so. However, if such default(s) have not been cured by the Lessor and cannot be cured by a Lessee within such thirty (30) day period, then Lessee shall be permitted an additional thirty (30) days to cure so long as Lessee is proceeding with due diligence and in good faith to promptly cure such defaults). Notwithstanding anything to the contrary herein: (i) in no event shall Lessee have a duty or obligation to cure or remedy any breach or default by Lessor under the Lease or the Bond Documents; and (ii) Lessee shall reserve any claims, rights, and remedies, without prejudice, that it may have against the Lessor.

ARTICLE XIII

MISCELLANEOUS

Section 13.01. Indemnification Covenants. To the extent permitted by law, the Lessee shall and hereby agrees to indemnify and hold the Lessor, the Trustee, and the Master Trustee (and their respective officers, directors, employees, attorneys, advisors, and contractors) harmless against and from all claims, by or on behalf of any person, firm, corporation or other legal entity arising from the Lease and the execution of the Lease and the occupancy, operation, conduct or management of or from any work or thing done on or with respect to, the Leased Property during the Lease Term from: (a) any conditions of the Leased Property; (b) any action of negligence of the Lessee, or any of its agents, contractors or employees or any violation of law by the Lessee or breach of any covenant or warranty by the Lessee hereunder, or any claim or allegation of any of the foregoing; and (c) any act or omission of the Lessee or any of its respective agents, members, officers or directors, which act or omission shall include any and all claims or potential claims arising at law or in equity which are or may be asserted against the Trustee, the Master Trustee or the Lessor, their agents, officers or directors, including, but not limited to claims of negligence, breach of contract, breach of fiduciary duty and any alleged violation of any law, ordinance or regulation. To the extent permitted by law, the Lessee shall indemnify and hold the Lessor, the Trustee and the Master Trustee (and their respective officers, directors, employees, attorneys, advisors, and contractors) harmless from any such claim arising from (a), (b), (c) or (d) above or in connection with any action or proceeding brought thereon and, upon notice from the Lessor, the Trustee or the Master Trustee, shall defend the Lessor, the Trustee or the Master Trustee (and each such other indemnified person) in any such action or proceeding. The Lessee shall, to the extent permitted by law, indemnify and hold harmless the Master Trustee, the Trustee and the Lessor and their respective officers, directors, employees, attorneys, advisors, and contractors, in their official and personal capacity, for any and all actions related to the Leased Property and the authorization, issuance and delivery of any Notes. The foregoing indemnities shall not apply to any claims arising out of the gross negligence or willful misconduct of any of the indemnified parties and shall survive the termination of this Lease.

Section 13.02. Manner of Giving Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when (a) mailed by certified or registered mail, postage prepaid, (b) deposited with any nationally recognized overnight delivery service that routinely issues receipts, or (c) personally delivered by any courier

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Section 13.08. Severability. In the event that any provision of this Lease, other than relating to pay merit of Base Rent and Additional Rent, shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 13.09. Execution in Counterparts. This Lease may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 13.10. Applicable Law. The laws of the Commonwealth and rules and regulations issued pursuant thereto, as the same may be amended from time to time, shall be applied in the interpretation, execution and enforcement of this Lease. Any provision of this Lease whether or not incorporated herein by reference which provides for arbitration by an extrajudicial body or person or which is otherwise in conflict with said laws, rules, and regulations shall be considered null and void. Nothing contained in any provision incorporated herein by reference which purports to negate this or any other special provision in whole or in part shall be valid or enforceable or available in any action at law whether by way of complaint, defense, or otherwise. Any provision rendered null and void by the operation of this provision will not invalidate the remainder of this Lease to the extent that this Lease is capable of performance.

Section 13.11. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Lease.

Section 13.12. Retention of Records. The Lessee will maintain or cause to be maintained records relating to the use and operation of the Leased Property for a period of four (4) years after the later of (i) payment in full of the Bonds or (ii) payment in full of any bonds issued to refund the Bonds.

Section 13.13. Electronic Storage. The parties hereto agree that the transaction described herein may be conducted and related documents may be stored by electronic means. Copies, telecopies, facsimiles, electronic files and other reproductions of original executed documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

Section 13.14. Estoppels. Each party hereto agrees that at any time and from time to time during the Term of this Lease, it shall promptly, but in any event not later than 15 business days after request by the other party hereto, execute, acknowledge and deliver to such other party or to any prospective purchaser, assignee, transferee, or the Trustee or to any third party designated by such other party, a certificate stating that, to the actual knowledge of the signer (a) that this Lease is unmodified and in force and effect (or if there have been modifications, that this Lease is in force and effect as modified, and identifying the modification agreements); (b) the date to which Base Rent and Additional Rent have been paid; (c) to the knowledge of the signer after due inquiry and investigation, whether or not there is any existing Event of Default by the Lessee in the payment of any Base Rent. Additional Rent, or other sums payable hereunder beyond any applicable grace period, and to the actual knowledge of the signer, whether or not there is any other existing default by either party hereto with respect to which a notice of default has been saved, and, if there is any such default, specifying the nature and extent thereof; and (d) whether or not

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there are any setoffs, defenses or counterclaims against enforcement of the obligations to be performed hereunder existing in favor of the party executing such certificate.

Section 13.15. Access. The Lessor, the Master Trustee, and their respective employees, agents and contractors, may, at all reasonable times, with two (2) days' notice, except in an emergency when no notice shall be required, enter and inspect the Leased Property and every part thereof.

Section 13.16. Attornment. At the election of any successor-in-interest to the Lessor's estate in the Leased Property or the rights of the Lessor under this Lease, whether through purchase, operation of law, possession, foreclosure action, deed, lease, or otherwise (the "Successor Lessor"), the Lessee shall attorn to and recognize such Successor Lessor as the Lessee's Lessor under this Lease, and shall promptly execute, acknowledge and deliver any instrument that such Successor Lessor may reasonably request to evidence such adornment. To the extent permitted by law, the Lessee hereby waives any right the Lessee may have under any present or future law to laminate this Lease or surrender the Leased Property by reason of the institution of any proceeding to terminate a superior lease or action to foreclose a superior mortgage, and this Lease shall not be affected by any such proceeding or action unless and until the lessor of the superior lease or holder, now or hereafter, of the superior mortgage, elects in such proceeding or action to terminate this Lease.

Section 13.17. Security Interest.

(a) As security for the performance of all obligations hereunder and the payment of all sums due or to become due hereunder or in connection herewith, the Lessee hereby grants to the Lessor and its assigns a security interest ("*Security Interest*") in all of the following property, whether now owned or hereafter acquired or arising or wherever located: Chattel Paper, Documents, General Intangibles, Goods, including without limitation, Equipment, Inventory, Fixtures and Accessions, Instruments (as those terms are defined in the UCC), Gross Revenues, monies which at any time the Lessee shall have or have the right to have in its possession, books and records evidencing or relating to the foregoing, and all Proceeds of the foregoing (as such term is defined in the UCC) (together, the "*Collateral*").

(b) The Lessee authorizes Lessor to file financing statements with all applicable filing offices, to execute and deliver such agreements and other documents as may be necessary to perfect the grant of security interest made hereby. The Lessee further acknowledges that the Lessor will assign this Lease and the security granted by the Lessee hereunder to the Trustee, and the Lessee hereby agrees and consents to the same and agrees to execute such other and further documents as such assignee may request in connection with any such assignment. Other than to DCII in connection with the DCII Lease, the Lessee represents, warrants and covenants that the Collateral has not been previously pledged to any other party, that no financing statement covering any of the Collateral is on file in any public office, and that the Lessee will not pledge the Collateral to any party (other than the Lessor).

(c) Upon the occurrence of an Event of Default (as hereinafter defined), the Lessor shall have the right, in addition to all other rights and remedies available to it, without notice to the Lessee, to apply toward and set-off against and apply to the unpaid obligations then

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IN WITNESS WHEREOF, the Lessor and the Lessee have executed this Lease as of the effective date first above written.

DEMEDICI CORPORATION, as Lessor

By: _____
Name: Javier Kuehnle
Title: President of the Board of Trustees

PHILADELPHIA PERFORMING ARTS: A
STRING THEORY CHARTER SCHOOL, as
Lessee

By: _____
Name: Javier Kuehnle
Title: President of the Board of Trustees

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due and payable hereunder, any items or funds held by Lessor, and any and all deposits (whether general or special, time or demand, matured or unmatured, fixed or contingent, liquidated or unliquidated) now or hereafter maintained by the Lessee with the Lessor. For the purpose of securing the Lessee's performance and payment of its obligations hereunder, the Lessor shall have, and the Lessee hereby grants to the Lessor, a first lien on all such deposits.

(d) The Lessee hereby appoints the Lessor as its lawful attorney-in-fact to do, at the Lessor's option, and at the Lessee's expense and liability, all lawful acts and things which the Lessor may deem necessary or desirable to effectuate its rights under this Section. Upon the occurrence of an Event of Default hereunder, the Lessor may immediately and without notice pursue any remedy at law or in equity to collect, enforce or satisfy any obligations under this Lease, which rights and remedies are cumulative, may be exercised from time to time, and are in addition to any rights and remedies available to the Lessor under this Lease. Upon ten (10) calendar days' prior written notice to the Lessee, which the Lessee hereby acknowledges to be sufficient, commercially reasonable and proper, the Lessor may sell, lease or otherwise dispose of any or all of the Collateral at any time and from time to time at public or private sale, with or without advertisement thereof and apply the proceeds of any such sale as may be required under the Indenture, and if not so required first to the Lessor's expenses in preparing the Collateral for sale (including reasonable attorneys' fees), second to the complete satisfaction of the obligations under this Lease and third, as required by the UCC. The Lessee waives the benefit of any marshaling doctrine with respect to the Lessor's exercise of its rights hereunder. The Lessee grants a royalty-free license to the Lessor for all patents, service marks, trademarks, tradenames, copyrights, computer programs and other intellectual property and proprietary rights sufficient to permit the Lessor to exercise all rights granted to the Lessee under this Section.

Section 13.18. Consents. Whenever the consent of either party is required for any action, the requested party shall not unreasonably withhold, condition or delay such consent, and if such consent is not expressly withheld in written notice to the other party given within fifteen (15) days after the request for such consent, such consent shall be deemed not to have been given by the requested party.

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EXHIBIT A

DESCRIPTION OF THE LEASED PROPERTY

ALL THAT CERTAIN lot or piece of ground with the buildings and improvements thereon erected.

SITUATE in the 26th Ward of the City of Philadelphia described according to a Survey and Plan of Property made for South Philadelphia Boys Club by John Stefanco, Surveyor and Regulator of the 2nd District dated 3/29/1972, to wit:

BEGINNING at a point formed by the intersection formed by the Westerly side of Broad Street (113 feet wide) and the Southerly side of Shunk Street (60 feet wide); thence extending Southwestwardly along the said Westerly side of Broad Street the distance of 166 feet 7.375 inches to a point; thence Northwestwardly on a line parallel with said Shunk Street along a subdivision line 82 feet 0 inches to a point on the center line of a 4 feet wide alley which leads Northeastwardly and Southwestwardly connecting at the Northerly end with a 3 feet wide alley which leads Southeastwardly from Rosewood Street (30 feet wide) and said 4 feet wide alley connects at its Southerly end with another 3 feet wide alley which leads Southeastwardly from said Rosewood Street; thence Northeastwardly along the center line of said 4 feet wide alley on a line parallel with said Broad Street 102 feet 1.375 inches to a point on the center line of said first mentioned 3 feet wide alley; thence Northwestwardly along the center line of said first mentioned 3 feet wide alley and on a line parallel with said Shunk Street 2 feet 0 inches to a point; thence Northeastwardly on a line parallel with said Broad Street partly crossing said first mentioned 3 feet wide alley and passing through a wall 64 feet 6 inches to a point on the said Southerly side of Shunk Street; thence Southeastwardly along the said Southerly side of Shunk Street 84 feet 0 inches to a point on the said Westerly side of Broad Street being the first mentioned point and place of beginning.

BEING known as 2600-30 South Broad Street.

BEING Parcel #77-3-6840-00.

ALL THAT CERTAIN lot or piece of ground with the buildings and improvements thereon erected, situate in the 26th Ward of the City of Philadelphia and described according to a Plan thereof made by Ben H. Joseph, Surveyor and Regulator of the 3rd District dated 6/27/1946, as follows, to-wit:

BEGINNING at a point formed by the intersection of the Westerly side of Broad Street (113 feet wide) and the Southerly side of Shunk Street (60 feet wide); thence extending Southwardly along the Westerly side of Broad Street 266 feet 7-3/8-inches to a point where said line intersects the Northerly side of Moyamensing Avenue; thence in a Southwesterly direction along the Northerly side of Moyamensing Avenue 161 feet 11-3/8 inches to a point where said line intersects the Easterly side of Rosewood Street (30 feet wide); thence extending in a Northeasterly direction along the Easterly side of Rosewood Street 70 feet 8-3/8 inches to a point in the center line of a 3 feet wide alley which extends Westerly into Rosewood Street; thence leaving Rosewood Street and along the center line of said 3 feet wide alley Eastwardly and parallel with Shunk Street 48 feet to a point in the center line of a 4 feet wide alley which extends Northwardly and Southwardly and communicates at the Southerly end thereof with the 3 feet wide alley hereinabove mentioned and at its Northerly end with a certain other 3 feet wide alley which extends Westerly into Rosewood Street; thence in a Northeasterly direction along the center line of said 4 feet wide alley and on a line parallel with Broad Street 228 feet to a point in the center line of the second above mentioned 3 feet wide alley; thence in a Westerly direction along the center line of said 3 feet wide alley

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EXHIBIT B

BASE RENT PAYMENT SCHEDULE¹

[See attached.]

BEING known as 2632 South Broad Street.

BEING Parcel #88-3-5371-00.

TOGETHER with all rights, title and interest which the within Grantor now has in the aforesaid alleys as and for passageways and watercourses forever.

EXCEPTING THEREOUT AND THEREFROM:

ALL THAT CERTAIN lot or piece of ground with the buildings and improvements thereon erected.

SITUATE in the 26th Ward of the City of Philadelphia described according to a Survey and Plan of Property made for South Philadelphia Boys Club by John Stefanco, Surveyor and Regulator of the 2nd District dated 3/29/1972, to wit:

BEGINNING at a point formed by the intersection formerly the Westerly side of Broad Street (113 feet wide) and the Southerly side of Shunk Street (60 feet wide); thence extending Southwestwardly along the said Westerly side of Broad Street the distance of 166 feet 7-3/8 inches to a point; thence Northwestwardly on a line parallel with the said Shunk Street along a proposed subdivision line 82 feet 0 inches to a point on the center line of a 4 feet wide alley which leads Northeastwardly and Southwestwardly connecting at the Northerly end with a 3 feet wide alley which leads Southeastwardly from Rosewood Street (30 feet wide) and said 4 feet wide alley connects at its Southerly end with another 3 feet wide alley which leads Southeastwardly from said Rosewood Street; thence Northeastwardly along the center line of said 4 feet wide alley on a line parallel with said Broad Street 102 feet 1-3/8 inches to a point on the center line of said lot mentioned 3 feet wide alley; thence Northwestwardly along the center line of said 1st mentioned 3 feet wide alley and on a line parallel with said Shunk Street 2 feet 0 inches to a point; thence Northeastwardly on a line parallel with said Broad Street partly crossing said 1st mentioned 3 feet wide alley and passing through a wall 64 feet 6 inches to a point on the said Southerly side of Shunk Street; thence Southeastwardly along the said Southerly side of Shunk Street 84 feet 0 inches to a point on the said Westerly side of Broad Street being the first mentioned point and place of beginning.

¹ Base Rent due on the 10th day of each month.

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Series 2020 Base Rent Payment Schedule			
Date	Principal	Interest	Debt Service
1/10/2021	66,666.67	\$ 221,485.74	\$ 288,152.41
2/10/2021	66,666.67	221,485.74	288,152.41
3/10/2021	66,666.67	221,485.74	288,152.41
4/10/2021	66,666.67	221,485.74	288,152.41
5/10/2021	66,666.67	221,485.74	288,152.41
6/10/2021	66,666.67	221,485.74	288,152.41
7/10/2021	66,250.00	215,337.50	281,587.50
8/10/2021	66,250.00	215,337.50	281,587.50
9/10/2021	66,250.00	215,337.50	281,587.50
10/10/2021	66,250.00	215,337.50	281,587.50
11/10/2021	66,250.00	215,337.50	281,587.50
12/10/2021	66,250.00	215,337.50	281,587.50
1/10/2022	66,250.00	215,337.50	281,587.50
2/10/2022	66,250.00	215,337.50	281,587.50
3/10/2022	66,250.00	215,337.50	281,587.50
4/10/2022	66,250.00	215,337.50	281,587.50
5/10/2022	66,250.00	215,337.50	281,587.50
6/10/2022	66,250.00	215,337.50	281,587.50
7/10/2022	68,750.00	212,687.50	281,437.50
8/10/2022	68,750.00	212,687.50	281,437.50
9/10/2022	68,750.00	212,687.50	281,437.50
10/10/2022	68,750.00	212,687.50	281,437.50
11/10/2022	68,750.00	212,687.50	281,437.50
12/10/2022	68,750.00	212,687.50	281,437.50
1/10/2023	68,750.00	212,687.50	281,437.50
2/10/2023	68,750.00	212,687.50	281,437.50
3/10/2023	68,750.00	212,687.50	281,437.50
4/10/2023	68,750.00	212,687.50	281,437.50
5/10/2023	68,750.00	212,687.50	281,437.50
6/10/2023	68,750.00	212,687.50	281,437.50
7/10/2023	71,666.67	209,937.50	281,604.17
8/10/2023	71,666.67	209,937.50	281,604.17
9/10/2023	71,666.67	209,937.50	281,604.17
10/10/2023	71,666.67	209,937.50	281,604.17
11/10/2023	71,666.67	209,937.50	281,604.17
12/10/2023	71,666.67	209,937.50	281,604.17
1/10/2024	71,666.67	209,937.50	281,604.17
2/10/2024	71,666.67	209,937.50	281,604.17
3/10/2024	71,666.67	209,937.50	281,604.17
4/10/2024	71,666.67	209,937.50	281,604.17
5/10/2024	71,666.67	209,937.50	281,604.17
6/10/2024	71,666.67	209,937.50	281,604.17
7/10/2024	75,416.67	206,354.17	281,770.83
8/10/2024	75,416.67	206,354.17	281,770.83
9/10/2024	75,416.67	206,354.17	281,770.83
10/10/2024	75,416.67	206,354.17	281,770.83
11/10/2024	75,416.67	206,354.17	281,770.83

Series 2020 Base Rent Payment Schedule			
Date	Principal	Interest	Debt Service
12/10/2024	75,416.67	206,354.17	281,770.83
1/10/2025	75,416.67	206,354.17	281,770.83
2/10/2025	75,416.67	206,354.17	281,770.83
3/10/2025	75,416.67	206,354.17	281,770.83
4/10/2025	75,416.67	206,354.17	281,770.83
5/10/2025	75,416.67	206,354.17	281,770.83
6/10/2025	75,416.67	206,354.17	281,770.83
7/10/2025	79,166.67	202,583.33	281,750.00
8/10/2025	79,166.67	202,583.33	281,750.00
9/10/2025	79,166.67	202,583.33	281,750.00
10/10/2025	79,166.67	202,583.33	281,750.00
11/10/2025	79,166.67	202,583.33	281,750.00
12/10/2025	79,166.67	202,583.33	281,750.00
1/10/2026	79,166.67	202,583.33	281,750.00
2/10/2026	79,166.67	202,583.33	281,750.00
3/10/2026	79,166.67	202,583.33	281,750.00
4/10/2026	79,166.67	202,583.33	281,750.00
5/10/2026	79,166.67	202,583.33	281,750.00
6/10/2026	79,166.67	202,583.33	281,750.00
7/10/2026	82,916.67	198,625.00	281,541.67
8/10/2026	82,916.67	198,625.00	281,541.67
9/10/2026	82,916.67	198,625.00	281,541.67
10/10/2026	82,916.67	198,625.00	281,541.67
11/10/2026	82,916.67	198,625.00	281,541.67
12/10/2026	82,916.67	198,625.00	281,541.67
1/10/2027	82,916.67	198,625.00	281,541.67
2/10/2027	82,916.67	198,625.00	281,541.67
3/10/2027	82,916.67	198,625.00	281,541.67
4/10/2027	82,916.67	198,625.00	281,541.67
5/10/2027	82,916.67	198,625.00	281,541.67
6/10/2027	82,916.67	198,625.00	281,541.67
7/10/2027	87,083.33	194,479.17	281,562.50
8/10/2027	87,083.33	194,479.17	281,562.50
9/10/2027	87,083.33	194,479.17	281,562.50
10/10/2027	87,083.33	194,479.17	281,562.50
11/10/2027	87,083.33	194,479.17	281,562.50
12/10/2027	87,083.33	194,479.17	281,562.50
1/10/2028	87,083.33	194,479.17	281,562.50
2/10/2028	87,083.33	194,479.17	281,562.50
3/10/2028	87,083.33	194,479.17	281,562.50
4/10/2028	87,083.33	194,479.17	281,562.50
5/10/2028	87,083.33	194,479.17	281,562.50
6/10/2028	87,083.33	194,479.17	281,562.50
7/10/2028	91,666.67	190,125.00	281,791.67
8/10/2028	91,666.67	190,125.00	281,791.67
9/10/2028	91,666.67	190,125.00	281,791.67
10/10/2028	91,666.67	190,125.00	281,791.67

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Series 2020 Base Rent Payment Schedule			
Date	Principal	Interest	Debt Service
7/10/2044	199,583.33	81,958.33	281,541.67
8/10/2044	199,583.33	81,958.33	281,541.67
9/10/2044	199,583.33	81,958.33	281,541.67
10/10/2044	199,583.33	81,958.33	281,541.67
11/10/2044	199,583.33	81,958.33	281,541.67
12/10/2044	199,583.33	81,958.33	281,541.67
1/10/2045	199,583.33	81,958.33	281,541.67
2/10/2045	199,583.33	81,958.33	281,541.67
3/10/2045	199,583.33	81,958.33	281,541.67
4/10/2045	199,583.33	81,958.33	281,541.67
5/10/2045	199,583.33	81,958.33	281,541.67
6/10/2045	199,583.33	81,958.33	281,541.67
7/10/2045	209,583.33	71,979.17	281,562.50
8/10/2045	209,583.33	71,979.17	281,562.50
9/10/2045	209,583.33	71,979.17	281,562.50
10/10/2045	209,583.33	71,979.17	281,562.50
11/10/2045	209,583.33	71,979.17	281,562.50
12/10/2045	209,583.33	71,979.17	281,562.50
1/10/2046	209,583.33	71,979.17	281,562.50
2/10/2046	209,583.33	71,979.17	281,562.50
3/10/2046	209,583.33	71,979.17	281,562.50
4/10/2046	209,583.33	71,979.17	281,562.50
5/10/2046	209,583.33	71,979.17	281,562.50
6/10/2046	209,583.33	71,979.17	281,562.50
7/10/2046	220,000.00	61,500.00	281,500.00
8/10/2046	220,000.00	61,500.00	281,500.00
9/10/2046	220,000.00	61,500.00	281,500.00
10/10/2046	220,000.00	61,500.00	281,500.00
11/10/2046	220,000.00	61,500.00	281,500.00
12/10/2046	220,000.00	61,500.00	281,500.00
1/10/2047	220,000.00	61,500.00	281,500.00
2/10/2047	220,000.00	61,500.00	281,500.00
3/10/2047	220,000.00	61,500.00	281,500.00
4/10/2047	220,000.00	61,500.00	281,500.00
5/10/2047	220,000.00	61,500.00	281,500.00
6/10/2047	220,000.00	61,500.00	281,500.00
7/10/2047	230,833.33	50,500.00	281,333.33
8/10/2047	230,833.33	50,500.00	281,333.33
9/10/2047	230,833.33	50,500.00	281,333.33
10/10/2047	230,833.33	50,500.00	281,333.33
11/10/2047	230,833.33	50,500.00	281,333.33
12/10/2047	230,833.33	50,500.00	281,333.33
1/10/2048	230,833.33	50,500.00	281,333.33
2/10/2048	230,833.33	50,500.00	281,333.33
3/10/2048	230,833.33	50,500.00	281,333.33
4/10/2048	230,833.33	50,500.00	281,333.33
5/10/2048	230,833.33	50,500.00	281,333.33

Series 2020 Base Rent Payment Schedule			
Date	Principal	Interest	Debt Service
6/10/2048	230,833.33	50,500.00	281,333.33
7/10/2048	242,500.00	38,958.33	281,458.33
8/10/2048	242,500.00	38,958.33	281,458.33
9/10/2048	242,500.00	38,958.33	281,458.33
10/10/2048	242,500.00	38,958.33	281,458.33
11/10/2048	242,500.00	38,958.33	281,458.33
12/10/2048	242,500.00	38,958.33	281,458.33
1/10/2049	242,500.00	38,958.33	281,458.33
2/10/2049	242,500.00	38,958.33	281,458.33
3/10/2049	242,500.00	38,958.33	281,458.33
4/10/2049	242,500.00	38,958.33	281,458.33
5/10/2049	242,500.00	38,958.33	281,458.33
6/10/2049	242,500.00	38,958.33	281,458.33
7/10/2049	536,666.67	26,833.33	563,500.00
8/10/2049	536,666.67	26,833.33	563,500.00
9/10/2049	536,666.67	26,833.33	563,500.00
10/10/2049	536,666.67	26,833.33	563,500.00
11/10/2049	536,666.67	26,833.33	563,500.00
12/10/2049	536,666.67	26,833.33	563,500.00
1/10/2050	536,666.67	26,833.33	563,500.00
2/10/2050	536,666.67	26,833.33	563,500.00
3/10/2050	536,666.67	26,833.33	563,500.00
4/10/2050	536,666.67	26,833.33	563,500.00
5/10/2050	536,666.67	26,833.33	563,500.00
6/10/2050	536,666.67	26,833.33	563,500.00
\$ 52,405,000.00 \$ 50,687,214.44 \$ 103,092,214.44			

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EXHIBIT C

PERMITTED ENCUMBRANCES

Those items listed in Schedule B to the Title Policy issued by First American Title Insurance Company in connection with the Series 2020 Bonds.

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EXHIBIT A INVESTMENT REQUIREMENTS

This **MASTER TRUST INDENTURE** dated as of December 1, 2020 (this “**Master Indenture**”) is among **DEMEDICI CORPORATION** (the “**Corporation**” or “**Obligated Group Representative**”), a nonprofit corporation duly organized and validly existing under the laws of the Commonwealth of Pennsylvania, **DEMEDICI CORPORATION II (“DMII”** and, together with the Corporation, the “**Obligated Group**”), a nonprofit corporation duly organized and validly existing under the laws of the Commonwealth of Pennsylvania and **U.S. BANK NATIONAL ASSOCIATION**, as master trustee (the “**Master Trustee**”), a national banking association organized and existing under the laws of the United States of America.

PRELIMINARY STATEMENT

The Obligated Group is authorized by law, and deems it necessary and desirable, to enter into this Master Indenture for the purpose of providing for the issuance from time to time of Obligations (hereinafter defined), which Obligations are to be secured by and payable from revenues derived from operations of Philadelphia Performing Arts: A String Theory Charter School, a Pennsylvania nonprofit organization (“**Charter School**”), in connection with certain lawful and proper corporate purposes of the Obligated Group.

All acts and things necessary to constitute this Master Indenture a valid indenture and agreement according to its terms have been done and performed, the Obligated Group has duly authorized the execution and delivery of this Master Indenture, and the Obligated Group, in the exercise of the legal right and power vested in it, has executed this Master Indenture and proposes to make, execute, issue and deliver Obligations.

At the time Obligations are issued in accordance with the provisions of this Master Indenture and of any Supplemental Indenture creating Obligations, all acts and things necessary to authorize such Obligations and to constitute such Obligations, payable solely from the Pledged Revenues (hereinafter defined) the valid and binding legal obligations of the Obligated Group will have been done and performed.

NOW, THEREFORE, in order to declare the terms and conditions upon which Obligations of each series are to be authenticated, issued and delivered, and in consideration of the premises, the Obligated Group, intending to be legally bound, hereby covenants and agrees with the Master Trustee for the equal and proportionate benefit of the respective Holders from time to time of Obligations issued hereunder, as follows.

ARTICLE I

DEFINITION OF TERMS, CONSTRUCTION AND CERTAIN GENERAL PROVISIONS

Section 1.1. **Definitions of Terms.** Unless the context shall otherwise require, the words and terms used in this Master Indenture shall have the meanings specified in this Section. Except where otherwise indicated or provided, words importing persons include firms, associations and corporations, and words importing the singular number include the plural number and vice versa.

“**2020 Note**” has the meaning set forth in Section 4.1 hereof.

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“**Ancillary Obligation**” means an Obligation, expressly identified as such in a Supplemental Indenture as being entered into in order to evidence or secure financial obligations of the Obligated Group payable from Pledged Revenues in an agreement that is ancillary to any direct Indebtedness, such as a reimbursement agreement, liquidity agreement, standby bond purchase agreement or similar agreement, unless and until and to the extent any such agreement constitutes a direct obligation of the Obligated Group to repay money borrowed, credit extended or the equivalent thereof (at which time such Obligation is to be deemed Indebtedness and treated hereunder as a Note).

“**Architect**” means an Independent architect, engineer or firm of architects or engineers which is appointed by the Obligated Group Representative 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, has a favorable reputation for skill and experience in performing similar services in respect of facilities of a comparable size and nature, and is not unsatisfactory to the Master Trustee. Notwithstanding the foregoing requirement that the Architect be Independent, the Architect initially means Frank Forino, an employee of the Charter School.

“**Audited Financial Statements**” means financial statements with respect to a Member, but solely with respect to assets, revenues and expenses related to the Charter School, prepared in accordance with generally accepted accounting principles which have been examined and reported on by a firm of Independent Public Accountants of recognized standing selected by the Obligated Group Representative. Such financial statements may be combined or consolidated financial statements, if appropriate under generally accepted accounting principles, of the Obligated Group Representative or of any consolidated or combined group of companies of which such Obligated Group Representative is a member provided that consolidating or combining schedules are included in the financial statements (or as supplemental schedules incorporated within such financial statements) so that the discrete financial results of each Member related to the operations of the Charter School may be identified.

“**Board**” means a Member’s board of directors, board of trustees, board of governors or other board or group of individuals in which all of the powers of such Member for the management of corporate assets are vested.

“**Business Day**” means any day other than a Saturday or a Sunday or a day on which banking institutions are required or authorized by law or executive order to remain closed in the Commonwealth of Pennsylvania or the City of New York.

“**Capitalized Lease**” means at any time any lease which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the Members at such time.

“**Charter School**” means Philadelphia Performing Arts: A String Theory Charter School, a Pennsylvania nonprofit organization.

“**Consultant**” means an Independent, recognized consulting firm which is appointed by the Obligated Group Representative for the purpose of passing on questions relating to the financial affairs, management or operations of the Members, has a favorable reputation for skill

and experience in performing similar services in respect of entities of a comparable size and nature and is not unsatisfactory to the Master Trustee. If any Consultant’s report or opinion is required to be given with respect to matters partly within and partly without the expertise of any consultant, such Consultant may rely upon the report or opinion of another Consultant possessing the necessary expertise.

“**Corporation**” means DeMedici Corporation, a Pennsylvania nonprofit corporation, its successors and assigns.

“**Counsel**” means an attorney at law or law firm (which may include counsel to a Member) not unsatisfactory to the Master Trustee.

“**Debt Service Requirements**” means, for any specified period, the amounts payable or the payments required to be made with respect to principal and interest on Outstanding Long Term Indebtedness during such period (calculated in such a manner that no portion of Long Term Indebtedness is included more than once), including, but not limited to, the following:

(a) the amounts payable as lease rentals with respect to any and all Long Term Indebtedness incurred in the form of Capitalized Leases,

(b) the amounts payable with respect to the principal of any and all Obligations issued hereunder (including scheduled mandatory redemptions of principal) and the interest on such Obligations, and

(c) the amounts payable to any or all holders of Long Term Indebtedness other than Capitalized Leases and obligations hereunder (or to any trustee or paying agent for such holders) in respect of the principal of such Long Term Indebtedness (including mandatory redemptions or prepayments of principal) and the interest on such Long Term Indebtedness; provided, however, that

(i) the amounts deemed payable in respect of interest do not include interest on any Long Term Indebtedness that is funded from the proceeds thereof;

(ii) the amounts payable with respect to Long Term Indebtedness do not include amounts in any debt service reserve fund available and required to be applied in the year of final maturity of such Long Term Indebtedness;

(iii) the amounts payable with respect to Long Term Indebtedness do not include principal or interest on Long Term Indebtedness to the extent legally defeased pursuant to the terms of the documents under which such Long Term Indebtedness has been incurred or to the extent payable from funds available under an Escrow Deposit; and

(iv) the amounts payable with respect to Long Term Indebtedness is subject to adjustment and recalculation as and to the extent permitted or required by Section 4.2(b) hereof and Sections 10.12(h) of the Leases in the case of Long Term Indebtedness incurred as Variable Rate Indebtedness, and, in the case of Indebtedness for which there is a related Qualified Derivative, Section 4.4(e) hereof and Section 10.12(g) of the Leases.

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“**DM Lease**” means the Lease Agreement dated as of December 1, 2020, between the Corporation and the Charter School for the DM Leased Property.

“**DM Leased Property**” means the real property known as 2632 South Broad Street and 2630 South Broad Street, Philadelphia, Pennsylvania 19145.

“**DMII**” means DeMedici Corporation II, a Pennsylvania nonprofit corporation, its successors and assigns.

“**DMII Lease**” means the Lease Agreement dated as of December 1, 2020, between DMII and the Charter School for the DMII Leased Property.

“**DMII Leased Property**” means the real property known as 2407 Broad Street, Philadelphia, PA, 1338-42 Ritner Street, Philadelphia, PA and 2419-37 South Broad Street, Philadelphia, PA; and 1600 Vine Street, Philadelphia, PA.

“**EMMA**” means the Electronic Municipal Market Access system providing a centralized online source for free access to municipal disclosures, market transparency data and educational materials about the municipal securities market operated by the Municipal Securities Rulemaking Board.

“**Environmental Damages**” means all claims, judgments, damages, losses, penalties, fines, liabilities (including strict liability), encumbrances, liens, privileges, costs, and expenses of investigation and defense of any claim, whether or not such claim is ultimately defeated, and of any good faith settlement or judgment, of whatever kind or nature, contingent or otherwise, matured or unmatured, foreseeable or unforeseeable, including without limitation reasonable attorneys’ fees and expenses and expert consultants’ fees and disbursements, any of which are incurred at any time as a result of the existence of Regulated Chemicals upon, about, beneath or migrating, or threatening to migrate, onto or from the Mortgaged Property, or the existence of a violation of Environmental Requirements pertaining to the Mortgaged Property, regardless of whether or not such Environmental Damages were caused by or within the control of the Members.

“**Environmental Requirements**” means all applicable federal, Commonwealth, regional or local laws, statutes, rules, regulations or ordinances, concerning public health, safety or the environment, including, but not limited to, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§9601, et seq., the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, as amended by the Solid and Hazardous Waste Amendments of 1984, 42 U.S.C. §§6901, et seq., the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 U.S.C. §§1251, et seq., the Toxic Substances Control Act of 1976, 15 U.S.C. §§2601, et seq., the Emergency Planning and Community Right-To-Know Act of 1986, 42 U.S.C. §§ 11001, et seq., the Clean Air Act of 1966, as amended, 42 U.S.C. §§ 7401, et seq., the National Environmental Policy Act of 1975, 42 U.S.C. §§ 4321, the Rivers and Harbors Act of 1899, 33 U.S.C. §§ 401 et. seq., the Endangered Species Act of 1973, as amended 16 U.S.C. §§ 1531, et seq., the Occupational Safety and Health Act of 1970, as amended, 29 U.S.C. §§ 651, et seq., the Safe Drinking Water Act of 1974, as amended 42 U.S.C. §§ 300(f), et. seq., and all rules, regulations, policies and guidance documents promulgated or

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“**Hedging Obligation**” means an Obligation expressly identified as such in a Supplemental Indenture delivered to the Master Trustee as being entered into in connection with a Qualified Derivative, which Obligation secures the scheduled periodic payments and termination payments due under a Qualified Derivative as stated in such Hedging Obligation.

“**Holder**” means, as the context requires, any Noteholder or any Person to whom a Guaranty, a Hedging Obligation or an Ancillary Obligation is issued, and the holder of any other Obligation issued hereunder and includes successors or assigns.

“**Indebtedness**” means, without duplication, the following but in each case only so long as such indebtedness, obligation, or liability is secured by or payable from the Pledged Revenues:

(a) all indebtedness or obligations of a Member for borrowed moneys, for the payment of money to any Person other than such Member, including guaranties and any Obligations issued hereunder, whether due and payable in all events or upon the performance of work, possession of property or satisfaction of other specified conditions, or which has been incurred or assumed in connection with the acquisition of property or services by a member of the Obligated Group;

(b) all indebtedness, no matter how created, secured by property of a Member whether or not such indebtedness is assumed by such Member;

(c) the liability of a Member under any lease of real or personal property which is properly capitalized on the balance sheet of a Member in accordance with generally accepted accounting principles in the United States on the date of execution of this Master Indenture;

(d) all obligations of the Members, including any obligation to make a loan, guarantying, or in effect guarantying, directly or indirectly, in any manner whatsoever, any obligation of any Person, which obligation would constitute Indebtedness if incurred by a Member, including any Guaranty; and

(e) installment sale obligations of a Member.

Notwithstanding the foregoing, the term “Indebtedness” does not include (A) Non-Recourse Indebtedness; (B) trade payables incurred in the ordinary course of business; (C) any obligation under a line of credit, letter of credit, standby bond purchase agreement or similar liquidity or credit facility established in connection with the issuance of any Notes or Related Financing Documents to the extent that such liquidity or credit facility has not been used or drawn upon to purchase Notes or Related Financing Documents but shall include the initial and annual fees of the issuer of such facility to the extent payable by a Member; (D) any Hedging Obligation or Ancillary Obligation (except at such point in time when such Obligations evidence a direct obligation to pay, in the case of non-contingent termination payments evidenced by a Hedging Obligation, or repay money advanced or credit extended under an Ancillary Obligation); (E) indebtedness of a Member to the guarantor of Indebtedness of such Member to the extent the underlying guaranteed indebtedness is included as Indebtedness of such Member, (F) deferred revenue resulting from the prepayment of amounts due for future services; (G) current obligations payable out of current revenues, including current payments for the funding of pension plans and contributions to self-insurance programs; or (H) any other obligation which does not constitute indebtedness under generally accepted accounting principles.

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published thereunder, and any Commonwealth, regional, parish or local statute, law, rule, regulation or ordinance relating to public health, safety or the environment, including, without limitation those relating to: (a) releases, discharges, emissions or disposals to air, water, land or groundwater; (b) the withdrawal or use of groundwater; (c) the use, handling, or disposal of polychlorinated biphenyls (“PCBs”), asbestos or urea formaldehyde; (d) the transportation, treatment, storage, disposal, release or management of hazardous substances or materials (including, without limitation, petroleum, its derivatives, by-products or other hydrocarbons), and any other solid, liquid, or gaseous substances, exposure to which is prohibited, limited or regulated, or may or could pose a hazard to the health and safety of the occupants of the Mortgaged Property or any property adjacent to or surrounding the Mortgaged Property; (e) the exposure of Persons to toxic, hazardous, or other controlled, prohibited or regulated substances; and (f) any Regulated Chemical.

“**Escrow Deposit**” means a segregated escrow fund or other similar fund, account or deposit, irrevocably held in trust, of cash and/or Government Obligations the principal of and interest on which, as and when received, will be in an aggregate amount sufficient, as verified by an Independent Public Accountant or other financial services or advisory firm recognized in the practice, to timely pay all or a portion of the principal of, premium, if any, and interest on Indebtedness, as the same becomes due or payable on the date(s) for payment of the same, whether at maturity or upon redemption, following delivery of irrevocable instructions to redeem such Indebtedness.

“**Event of Default**” means any event of default under this Master Indenture, as defined in Article VIII hereof.

“**Fiscal Year**” means a period of twelve consecutive months ending on June 30 of each year or such other 12-month period specified in writing by the Obligated Group Representative.

“**Force Majeure**,” as it relates to the Members, means, without limitation, the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or of the Commonwealth or any of their departments, agencies or officials or any civil or military authority; including, without limitation, so called “governmental shut downs” or other actions which result in any applicable governmental entity or agency not making payments that would otherwise be made to Charter School; insurrection; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; breakage or accidents to machinery, transmission pipes or canals; pandemics resulting in ordered closure of the Charter School and loss, postponement, or delay in funding to the Charter School, or any other causes not within the control of the Charter School or the Members, but specifically excluding the loss of the Charter by the Charter School due to the negligence or intentional or willful misconduct or default of Charter School.

“**Government Obligations**” means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

“**Guaranty**” means any Obligation issued under Article III hereof by the Obligated Group, under the terms of which the Obligated Group guarantees the indebtedness of a person other than the Obligated Group, which Obligation is secured by a first priority lien on the Pledged Revenues and the Mortgaged Property on a parity basis with the 2020 Note.

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“**Independent**” means, with respect to any Person, one which is not and does not have a partner, director, officer, member or substantial stockholder who is a member of the Board of the Member or “Affiliate” (as defined below), or an officer or employee of a Member or Affiliate; provided that the fact that a Person is retained regularly by or transacts business with a Member or Affiliate shall not, in and of itself, cause such Person to be deemed an employee of a Member or Affiliate for the purposes hereof. For the purposes of the foregoing, a Person shall be deemed to be an “Affiliate” if it controls or is controlled by a Member or if both are controlled by the same third party, as set forth below: (a) one Person shall be deemed to control another if it owns more than 50% of the outstanding voting stock of or other equity interests in the other, or it has the power to elect more than 50% of the governing body of the other; and (b) such control may be exercised by one person over another directly, indirectly through control over a third party, or jointly with one or more controlled third parties.

“**Independent Public Accountant**” means an Independent, nationally recognized accounting firm which is appointed by the Obligated Group Representative for the purpose of examining and reporting on or passing on questions relating to the financial statements of the any Member, has all certifications necessary for the performance of such services, has a favorable reputation for skill and experience in performing similar services in respect of entities of a comparable size and nature.

“**Insurance Consultant**” means an Independent firm of insurance agents, brokers or consultants which is appointed by the Obligated Group Representative for the purpose of reviewing and recommending insurance coverages for the facilities and operations of the Obligated Group, has a favorable reputation for skill and experience in performing such services in respect of facilities and operations of a comparable size and nature.

“**Investment Securities**” means and include the following:

(a) Government Obligations;

(b) Obligations of any state or political subdivision thereof or any agency or instrumentality of such a state or political subdivision, provided that (i) cash, Government Obligations or a combination thereof have been irrevocably pledged to and deposited into a segregated escrow account for the payment when due of the principal or redemption price of and interest on such obligations, (ii) any cash pledged and deposited as aforesaid is in such amount and any Government Obligations so pledged and deposited is payable as to principal and interest in such amounts and on such dates as may be necessary, without reinvestment, to provide for the payment when due of the principal or redemption price of an interest on such obligations, and (iii) such obligations are rated in the highest rating category assigned by Moody’s if Moody’s has assigned a rating to any Obligation of the Obligated Group; and by S&P, if S&P has assigned a rating to any Obligation of the Obligated Group (or, upon the discontinuance of all rating services that have assigned a rating to any Obligation of the Obligated Group, by such other nationally recognized rating service or services as may be acceptable to the Master Trustee);

(c) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies or such other like governmental or government-sponsored agencies which may be hereafter created: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing

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Bank; Federal Home Loan-Bank System; Export-Import Bank of the United States; Farmers Home Administration; Small Business Administration; Inter-American Development Bank; International Bank for Reconstruction and Development; Federal Land Banks; Federal National Mortgage Association; the Government National Mortgage Association; or the Tennessee Valley Authority;

(d) Negotiable and non-negotiable certificates of deposit which are issued by the Master Trustee, banks, trust companies or savings and loan associations and which meet the further requirements set forth in Section 6.5 hereof;

(e) Repurchase agreements for Government Obligations which (i) are entered into with the Master Trustee, banks, trust companies or dealers in government bonds which report to, trade with and are recognized as primary dealers by a Federal Reserve Bank, and (ii) meet the further requirements of Section 6.5 hereof;

(f) Investment agreements with banks, trust companies (including the Master Trustee) or dealers in government bonds which report to, trade with and are recognized as primary dealers by a Federal Reserve Bank, and (ii) meet the further requirements of Section 6.5 hereof;

(g) Commercial paper rated in the highest rating category by Moody's if Moody's has assigned a rating to any Obligation of the Obligated Group; and by S&P, if S&P has assigned a rating to any Obligation of an Obligation Issuer (or, upon the discontinuance of all rating services that have assigned a rating to any Obligation of the Obligated Group, by such other nationally recognized rating service or services as may be acceptable to the Master Trustee);

(h) Obligations of any state or political subdivision thereof or any agency or instrumentality of such a state or political subdivision, provided that such obligations are rated in one of the three highest rating categories assigned by such rating service by Moody's to obligations of the same type if Moody's has assigned a rating to any Obligation of the Obligated Group; and by S&P, if S&P has assigned a rating to any Obligation of an Obligation Issuer (or, upon the discontinuance of all rating services that have assigned a rating to any Obligation of the Obligated Group, by such other nationally recognized rating service or services as may be acceptable to the Master Trustee); and

(i) investments in a money market fund, which may be funds of the Master Trustee or its affiliates, rated in one of the two highest rating categories for this type of investment by any rating agency, including the First American Money Market Mutual Funds or any other mutual fund for which the Master Trustee or an affiliate of the Master Trustee serves as investment manager, administrator, shareholder, servicing agent and/or custodian or subcustodian; notwithstanding that (i) the Master Trustee or an affiliate of the Master Trustee receives fees from such funds for services rendered, (ii) the Master Trustee charges and collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Master Trustee or its affiliates.

"Leases" means, collectively, the DM Lease and DMII Lease.

"Long Term Indebtedness" means all Indebtedness other than Short Term Indebtedness.

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(B) any extraordinary gains or losses resulting from the extinguishment of Indebtedness and any profits or losses which would be regarded as extraordinary items under Generally Accepted Accounting Principles;

(C) gains or losses resulting from the sale, exchange or other disposition of capital assets not in the ordinary course of business;

(D) unrealized gains or losses, or temporary and other-than-temporary losses resulting from the periodic valuation of investments;

(E) any gains or losses resulting from changes in the fair value of Qualified Derivatives or similar agreements and any payments received by the Charter School from a Qualified Derivative which are taken into account in calculating the Debt Service Requirements;

(F) proceeds of insurance policies, other than policies for business interruption insurance, maintained by or for the benefit of the Members with respect to the Mortgaged Property, and any condemnation or any other damage award received by or owing to the Members with respect to the Mortgaged Property;

(G) proceeds of any Indebtedness permitted by this Master Indenture; and

(H) any payments received by the Members pursuant to a Qualified Derivative that are taken into account in calculating Debt Service Requirements;

(ii) interest earnings on moneys held in any debt service reserve fund established under any Related Financing Documents (but only to the extent that such interest earnings are required to be applied to the payment of debt service pursuant to such Related Financing Documents), and

(iii) capitalized interest held in a trust fund established under any Related Financing Document (but only to the extent that such interest earnings are required to be applied to the payment of debt service pursuant to such Related Financing Documents).

(b) All Operating Expenses for such period, but excluding the following:

(i) Debt Service Requirements, any payments made by the Members pursuant to a Qualified Derivative that are taken into account in calculating Debt Service Requirements and debt service paid on Short Term Indebtedness,

(ii) any allowance for depreciation or amortization; and

(iii) non-cash expenses and reserves accrued during such period for self-insurance purposes.

"Non-Recourse Indebtedness" means indebtedness which is not a general obligation of a Member and which is either (a) secured by a purchase money mortgage, pledge or lien on property

"Master Indenture" means this Master Trust Indenture, as it may be supplemented or amended from time to time.

"Master Trustee" means U.S. Bank National Association, acting as master trustee hereunder, and all successors and assigns.

"Member" means the Corporation and DMII, together with each other Person that is obligated hereunder to the extent and in accordance with the provisions of Section 7.10 hereof.

"Moody's" means Moody's Investors Services, Inc., and its successors and assigns.

"Mortgages" means, collectively, (i) the Open-End Mortgage, Assignment of Leases, Security Agreement and Fixture Filing, dated as of the date hereof, by which the Corporation has granted to the Master Trustee a lien on and security interest in the DM Leased Property and an assignment of the Corporation's rights under the DM Lease as security for the Obligations issued under this Master Indenture, as it may be amended, restored, supplemented or otherwise modified from time to time, and (ii) the Open-End Mortgage, Assignment of Leases, Security Agreement and Fixture Filing, dated as of the date hereof, by which DMII has granted to the Master Trustee a lien on and security interest in the DMII Leased Property and an assignment of DMII's rights under the DMII Lease as security for the Obligations issued under this Master Indenture, as it may be amended, restored, supplemented or otherwise modified from time to time.

"Mortgaged Property" means the real and personal property, including, among other things, the DM Leased Property and the DMII Leased Property.

"Obligated Group" means all Members.

"Obligated Group Representative" means the Corporation or such other Member (or Members acting jointly) as may be designated from time to time to act as Obligated Group Representative hereunder pursuant to written notice to the Master Trustee executed by all of the Members.

"Operating Expenses" has the meaning set forth in the Leases.

"Net Income Available for Debt Service" means, for any period of determination thereof, subpart (a) below LESS subpart (b) below.

(a) the sum of

(i) Pledged Revenues for such period, but excluding the following:

(A) 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 hereunder or to any Operating Expenses because of restrictions or designations imposed by the donor or maker of the gift, grant, bequest or contribution at the time of the making thereof;

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of a Member other than the Mortgaged Property or the Pledged Revenues, and not payable directly or indirectly from Pledged Revenues, or (b) secured by and payable from revenues and property other than the Mortgaged Property or the Pledged Revenues.

"Note" means any note issued hereunder by the Obligated Group Representative to evidence Indebtedness incurred pursuant to the terms hereof that is to be secured by a first priority lien on the Pledged Revenues and the Mortgaged Property on a parity basis with the 2020 Note.

"Noteholder" means (a) in the case of a Note in fully registered form, the Person in whose name the Note is registered pursuant to Section 2.4 hereof and (b) in the case of a coupon Note, the bearer of the Note or the Person in whose name the Note may be registered as to principal pursuant to Section 2.4 hereof.

"Obligations" means Notes, Guaranties, Hedging Obligations and Ancillary Obligations issued hereunder.

"Officer's Certificate" means a certificate signed by the Chairman, Vice Chairman, President or any Vice President of a Member.

"Outstanding" means, when used with reference to Indebtedness, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged or deemed to be paid and discharged in accordance with the terms of the instrument or instruments creating or evidencing such Indebtedness. When used with reference to Obligations Outstanding means, as of any particular time, all Obligations which have been duly authenticated and delivered by the Master Trustee under the terms of this Master Indenture, except:

(i) Notes as to which all required payments of principal, premium and interest have been fully paid or have been duly provided for pursuant to Article XI hereof;

(ii) Notes surrendered to and required to be cancelled by the Master Trustee or otherwise replaced, as provided in Article II hereof;

(iii) Guaranties issued hereunder for which the Master Trustee has received from the Holder thereof a written release of all claims thereunder against the signer;

(iv) Hedging Obligations issued hereunder for which the Master Trustee has received evidence from the Holder thereof that the related Qualified Derivative has terminated and all amounts payable thereunder have been paid; and

(v) Ancillary Obligations issued hereunder for which the Master Trustee has received evidence from the Holder thereof that all obligations under the Related Financing Documents have been satisfied;

provided, however, that if two or more obligations represent the same underlying Indebtedness as specified in such obligations (as when an obligation secures an issue of bonds and another obligation secures repayment obligations to a bank under a letter of credit which secures such bonds) for purposes of the various financial covenants contained herein, but only for such purposes, only one of such obligations shall be deemed Outstanding.

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“Permitted Encumbrances” means

- (a) liens for taxes, assessments and other governmental charges not delinquent or which can be paid without penalty;
- (b) unfilled inchoate mechanic’s and materialmen’s liens or construction work in progress;
- (c) workmen’s, repairmen’s, warehousemen’s, landlord’s and carriers’ liens and other similar liens, if any, arising in the ordinary course of business;
- (d) easements, restrictions, mineral, oil, gas and mining rights and reservations, zoning laws and defects in title, if they do not individually or in the aggregate materially impair the use of the real and personal property of a Member or materially detract from the value thereof to such Member;
- (e) any lien (including those referred to above) for the satisfaction and discharge of which a sufficient sum of money is on deposit with a fiduciary or trustee and pledged to the satisfaction of such lien or resulting from the entry of a judgment which is the subject of perfected appeal proceedings or as to which the time within which an appeal therefrom may be perfected has not yet expired (but only so long as no person in favor of whom such judgment was rendered has taken any action to enforce the lien resulting from such judgment);
- (f) liens on property received through gifts, grants or bequests, such liens being due to restrictions imposed by the donor, grantor or testator on such gifts, grants or bequests of property or the income therefrom or such liens having been in existence at the time of such gift, grant or bequest;
- (g) liens on the Pledged Revenues granted pursuant to this Master Indenture;
- (h) deposits or pledges to secure workers’ compensation, unemployment insurance, old age benefits or other social security obligations;
- (i) liens arising by reason of deposits or pledges in connection with leases of real estate, bids, contracts (other than contracts for the payment of money), tenders or letters of credit or to secure statutory obligations or surety or performance bonds or other pledges of like nature and all in the ordinary course of business;
- (j) rights and duties, and liens and encumbrances, created under or pursuant to Related Financing Documents, including liens on monies in any depreciation reserve fund or debt service reserve fund established in connection with the issuance of any Notes or Related Financing Documents;
- (k) liens on property of a Member in existence at the time of any merger or consolidation by a corporation into a Member, which liens secure indebtedness which was outstanding at such time;

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“Pledged Revenues” means all payments received or receivable by a Member under the Leases, any and all revenues, rentals, fees, third-party payments, receipts, unrestricted donations, unrestricted contributions or other income of the Members derived from or related to the Mortgaged Property or Charter School (each subject to Permitted Encumbrances), all as calculated in accordance with generally accepted accounting principles, including, without limitation, School District Payments, 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 Obligated Group. Notwithstanding anything herein to the contrary, gains or losses resulting from changes in accounting principles not involving the receipt or the expenditure of cash, including, among others, gains or losses resulting from the implementation of GASB 68, are to be excluded from Pledged Revenues for all purposes hereof.

“Principal Office” means the principal corporate trust office of the Master Trustee in Philadelphia, Pennsylvania or such other office at which at any particular time its corporate trust business shall be administered.

“Qualified Derivative” means an interest rate swap, cap, collar, floor, forward option, or other hedging agreement, arrangement or security, however denominated, entered into with a Qualified Provider with respect to Indebtedness incurred by a Member.

“Qualified Financial Institution” means (a) a bank, trust company, national banking association or a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, or a member of the National Association of Securities Dealers, Inc., whose unsecured obligations or uncollateralized long term debt obligations have been assigned a rating within the three highest rating categories by Moody’s if Moody’s has assigned a rating to any Obligation of the Obligated Group; and by S&P, if S&P has assigned a rating to any Obligation of an Obligation Issuer (or, upon the discontinuance of all rating services that have assigned a rating to any Obligation of the Obligated Group, by such other nationally recognized rating service or services as may be acceptable to the Master Trustee); or which has issued a letter of credit, contract, agreement or surety bond in support of debt obligations which have been so rated; or (b) an insurance company with a claims paying ability rated in one of the three highest rating categories by Moody’s if Moody’s has assigned a rating to any Obligation of the Obligated Group; and by S&P, if S&P has assigned a rating to any Obligation of the Obligated Group (or, upon the discontinuance of all rating services that have assigned a rating to any Obligation of the Obligated Group, by such other nationally recognized rating service or services).

“Qualified Provider” means a financial institution which is a party to a Qualified Derivative and whose long term credit rating (or the long term credit rating of any guarantor thereof) is in one of the three highest rating categories (ignoring gradations within each category)

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(l) leases which relate to property which is of the type that is customarily the subject of leases, including, without limitation, office space for physicians and educational institutions, food service facilities, parking facilities, gift, flower, barber or beauty shops and radiology, pathology or other hospital-based specialty services, pharmacy and similar departments, other leases existing as of the date of the Master Indenture, space in the premises of a Member sublet to members of the medical staff or space in the premises of a Member which is not directly used by such Member in the ordinary course of business or to further its exempt functions and any renewals and extensions thereof;

(m) any lien in the nature of a banker’s lien or right of set-off with respect to any debt owing to or any funds held in any manner for the account of a Member by a bank, savings and loan association, trust company or similar financial institution;

(n) any lien on any property of a Member, other than the Pledged Revenues, if after giving effect to such lien, no more than 5% of the total book value (determined in accordance with generally accepted accounting principles as aforesaid) of the tangible assets of a Member would be encumbered by liens which qualify as Permitted Encumbrances solely by application of this clause (n);

(o) mortgages, security interests and liens which secure all the Notes and Guarantees equally and ratably with any other Indebtedness secured thereby;

(p) liens on Pledged Revenues to secure regularly scheduled periodic payments and/or termination payments on Qualified Derivatives, which lien may be on a parity basis with the lien granted to secure Obligations under this Master Indenture;

(q) liens on Pledged Revenues to secure termination amounts due with respect to Qualified Derivatives; provided, however, that such liens shall be subordinate to the lien granted to secure Obligations issued hereunder;

(r) liens on property granted in connection with the incurrence of Non-Recourse Indebtedness, which property shall be limited solely to the property financed with such Non-Recourse Indebtedness;

(s) liens on Pledged Revenues that is subordinate on the lien granted to secure Obligations issued hereunder to secure Subordinated Indebtedness;

(t) the Mortgages;

(u) the lien of this Master Indenture; and

(v) liens existing on the date hereof.

“Person” means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, any unincorporated organization, a governmental body or a political subdivision, a municipality, a municipal authority or any other group or organization of individuals.

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of any rating agency (as of the date of execution of this Master Indenture: Moody’s - above Baal; S&P - above BBB+; Fitch - above BBB+).

“Regulated Chemical” means any substance, the presence of which requires investigation, permitting, control or remediation under any federal, Commonwealth or local statute, regulation, ordinance or order, including without limitation: (a) any substance defined as “hazardous waste” under the Resource Conservation and Recovery Act, as amended (42 U.S.C. §§ 6901 et seq.); (b) any substance defined as a “hazardous substance” under the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. §§ 9601 et seq.); (c) any substance defined as a “hazardous material” under the Hazardous Materials Transportation Act (49 U.S.C. §§ 1800 et seq.); (d) any substance defined under any Pennsylvania statute analogous to (a), (b) or (c), to the extent that said statute defines any term more expansively; (e) asbestos; (f) urea formaldehyde; (g) polychlorinated biphenyls; (h) petroleum, or any distillate or fraction thereof; (i) any hazardous or toxic substance designated pursuant to the laws of the Commonwealth; and (j) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority.

“Related Financing Documents” means: (a) in the case of any Note, (i) all documents pursuant to which the proceeds of the Note are made available to a Member, the payment obligations evidenced by the Note are created and any security for the Note (if permitted hereunder) is granted, and (ii) all documents creating any additional payment or other obligations on the part of a Member which are executed in favor of the Noteholder in consideration of the Note proceeds being loaned or otherwise made available to a Member or, if a permanent loan commitment or credit enhancement has been issued or obtained in support of a Member’s obligations under the Note, executed in favor of the issuer thereof in consideration of such issuance; (b) in the case of any Guaranty, all documents creating the indebtedness being guaranteed pursuant to the Guaranty and providing for the loan or other disposition of the proceeds of the indebtedness and all documents pursuant to which any security for the Guaranty (if permitted hereunder) is granted; (c) in the case of any indebtedness other than Notes or Guaranties, but including Hedging Obligations and Ancillary Obligations, all documents relating thereto which are of the same nature and for the same purpose as the documents described in clauses (a) and (b) above.

“Revenue Fund” means the Revenue Fund established pursuant to Section 6.2 hereof.

“S&P” means S&P Global Ratings, a division of S&P Global, Inc., and its successors and its assigns.

“School District Payments” means all payments received by the Charter School from the School Districts (as defined in the Leases).

“Short Term Indebtedness” means as of the date of determination thereof, all Indebtedness maturing on demand or within one year after the date as of which such determination is made (excluding the current portion of any Long Term Indebtedness and excluding any Indebtedness renewable or extendable at the option of the debtor absolutely or conditionally for a period or periods ending more than one year after the date of such determination, whether or not theretofore extended or renewed).

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“Subordinated Indebtedness” means any Indebtedness of a Member secured by the Pledged Revenues that is expressly made subordinate and junior in right of payment to the payment of principal, premium, if any, and interest due to and become due with respect to the Notes and any Related Financing Documents and all other obligations of the Obligated Group hereunder so that in the event that any Subordinated Indebtedness is declared or otherwise becomes due and payable because of the occurrence of an event of default with respect thereto, (a) the Holders shall be entitled to receive payment in full of such principal, premium and interest on the Notes before the holders of the Subordinated Indebtedness shall be entitled to receive any payment on account of such Subordinated Indebtedness as a result of such event of default, (b) no holder of Subordinated Indebtedness, or any trustee acting on such holder's behalf, shall be entitled to exercise any control over proceedings to enforce the terms and conditions of this Master Indenture without the prior written consent of the Master Trustee and all Holders and (c) the other terms and conditions of such subordination are satisfactory to the Master Trustee in its discretion.

“Supplemental Indenture” means an indenture supplemental to, and authorized and executed pursuant terms of, this Master Indenture for the purpose of creating one or more series of Notes or a particular Guaranty issued hereunder.

“Variable Rate Indebtedness” means any Long-Term Indebtedness, the rate on interest on which is subject to change on a periodic basis; provided, however, that Long-Term Indebtedness shall not be deemed to be Variable Rate Indebtedness if the rate of interest thereon is subject to change solely by reason of the occurrence of an event of default, the conversion of the Indebtedness (i.e. the 2019B Bonds) to tax-exempt debt as contemplated by Section 202 of the Bond Indenture, the loss of any applicable exemption of such interest from income taxation, or any other contingency which was not reasonably expected to occur at the time of incurrence

Section 1.2. **Construction of References.**

References by number in this Master Indenture to any Article or Section shall be construed as referring to the Articles and Sections contained in this Master Indenture, unless otherwise stated. The words “hereby,” “herein,” “hereof,” “hereto,” and “hereunder” and any compounds thereof shall be construed as referring to this Master Indenture generally and not merely to the particular Article, Section or subdivision in which they occur, unless otherwise required by the context.

Section 1.3. **Separability Clause.** If any provision of this Master Indenture shall be held or be deemed to be, or shall in fact be, inoperative or unenforceable as applied to any particular case in any jurisdiction or jurisdictions, or in all jurisdictions or in all cases, because any provision conflicts with any constitution or statute or rule of public policy or for any other reason, such circumstance shall not have the effect of rendering the provision or provisions in question inoperative or unenforceable in any other jurisdiction or in any other case or circumstance or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable.

Section 1.4. **Accounting Principles.** Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes of this Master Indenture or any agreement, document or certificate executed and delivered in connection with or pursuant to this Master Indenture, such determination or computation shall be done in accordance

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names and addresses with the Master Trustee for the purpose of receiving notices, and (ii) any other information which may be necessary for the proper discharge of the Master Trustee's duties hereunder as trustee, registrar, paying agent and transfer agent in respect of such Notes.

(b) The Notes of any series (and the coupons, if any, appertaining thereto) may be transferred or exchanged in the manner specified in the Supplemental Indenture providing for the issuance thereof. No transfer or exchange made in any other manner shall be valid for any purpose hereunder. Unless otherwise specified in the Supplemental Indenture providing for the issuance of the Notes to be transferred or exchanged, the Members shall pay all costs relating to such transfer or exchange, except for taxes or governmental charges related thereto, which shall be paid by the Holder requesting the transfer or exchange.

Section 2.5. **Mutilated, Destroyed, Lost or Stolen Notes**

(a) If any Note is mutilated, lost, stolen or destroyed, the Holder thereof shall be entitled to the issuance of a substitute Note, only as follows:

(i) in all cases, the Noteholder shall provide indemnity satisfactory to the Master Trustee against any and all claims arising out of or otherwise related to the issuance of substitute Notes pursuant to this Section;

(ii) in the case of a mutilated Note or coupon, the Noteholder shall surrender the Note to the Master Trustee for cancellation; and

(iii) in the case of a lost, stolen or destroyed Note or coupon, the Noteholder shall surrender the Note or coupons (whichever have not been lost, stolen or destroyed) provide evidence, satisfactory to the Obligated Group Representative and the Master Trustee, of the ownership of the affected Note or coupon and the loss, theft or destruction thereof.

Upon compliance with the foregoing, a new Note of like tenor and denomination, with unmaturing coupons attached, if appropriate, executed by the Obligated Group Representative, shall be authenticated by the Master Trustee and delivered to the Noteholder, all at the expense of the Noteholder to whom the substitute Note is delivered. Notwithstanding the foregoing, the Master Trustee shall not be required to authenticate and deliver any substitute for a Note which has been called for redemption or which has matured or is about to mature and, in any such case, the principal or redemption price then due or becoming due shall be paid by the Master Trustee in accordance with the terms of the mutilated, lost, stolen or destroyed Note without substitution therefor.

(b) Every substituted Note and coupon issued pursuant to this Section 2.5 shall constitute an additional contractual obligation of the Obligated Group, whether or not the Note or coupon alleged to have been destroyed, lost or stolen shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Master Indenture equally and proportionately with any and all other Notes and coupons duly issued hereunder.

(c) All Notes and coupons shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment of mutilated,

with generally accepted accounting principles at the time in effect in the United States, to the extent applicable, consistently applied except where such principles are inconsistent with the requirements of this Master Indenture or such agreement, document or certificate.

ARTICLE II

THE NOTES

Section 2.1. **Issuance of Notes: Form and Term Thereof.** Subject to the further conditions specified in Article IV hereof, the Obligated Group will be permitted to issue one or more series of Notes hereunder. The Notes of each series will be issued in substantially such form as may be approved by the Obligated Group Representative and set forth in the Supplemental Indenture providing for the issuance thereof. At the option of the Obligated Group Representative, the Notes of any particular series may be issued in coupon form (registrable as to principal only) or in fully registered form without coupons and, subject to the applicable provisions hereof, such Notes shall be issued upon and contain such additional terms as the Members determine, including, without limitation thereto, the following: (a) the aggregate principal amount of such Notes; (b) the authorized denominations of such Notes; (c) the date of such Notes; (d) the maturity date or dates of such Notes and the principal amount of Notes within each maturity; (e) the redemption provisions for such Notes; and (f) the rate or rates of interest on such Notes or the method of calculating such rate or rates of interest and the dates on which such interest is required to be paid. All such terms shall be set forth in the Supplemental Indenture providing for the issuance of the Notes in question.

Section 2.2. **Execution.** Each Note must be executed by the Chairman or Vice Chairman of the Board of the Obligated Group Representative and attested by its Secretary or Assistant Secretary and any coupons attached thereto will be executed by the Treasurer or Assistant Treasurer of the Obligated Group Representative. If permitted by applicable law, electronic signatures or facsimiles of the above-required signature may be imprinted on Notes and coupons issued hereunder. If permitted or required by the Articles of Incorporation, by-laws, code of regulations or corporate resolutions of the Obligated Group Representative, the signatures (which may be electronic or facsimiles) of other authorized officers may be substituted for the signatures of the officers specified above. The validity of any Note so executed shall not be affected by the fact that one or more of the officers whose signature appear on such Note have ceased to hold office at the time of authentication or delivery to the Holder or at any time thereafter.

Section 2.3. **Authentication.** No Note shall be valid for any purpose hereunder until the certificate of authentication printed thereon is duly executed by the manual signature of an authorized officer of the Master Trustee. Such authentication shall be proof that the Holder is entitled to the benefit of the trust hereby created.

Section 2.4. **Registration, Transfer and Exchange**

(a) The Note registration books of the Obligated Group shall be maintained at the Principal Office of the Master Trustee. Such books shall contain (i) the names and addresses of all Holders of Notes in fully registered form, all Holders of Notes in coupon form which are registered as to principal (other than to bearer) and all other Holders of Notes who have filed their

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destroyed, lost or stolen Notes and coupons, and shall preclude any and all other rights or remedies, notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments, investments or other securities without their surrender.

Section 2.6. **Payments of Principal, Redemption Price and Interest: Persons Entitled Thereto; Limited Obligation of Obligated Group.**

Except as otherwise provided below with respect to the limitation on the amount payable by the Obligated Group and as otherwise provided in any Supplemental Indenture executed in connection with the addition of a new Member to the Obligated Group, each Member jointly and severally covenants and agrees (a) to pay or cause to be paid promptly all payments, when due, whether at maturity by acceleration, upon proceeding for redemption, or otherwise, required to be made by any Member under this Master Indenture, any Supplemental Indenture, or any Obligation (the “**Required Payments**”), at the place, on the dates and in the manner provided herein, in any Supplemental Indenture and in said Obligations and (b) to faithfully observe and perform all of the conditions, covenants and requirements of this Master Indenture, any Supplemental Indenture and any Obligation. Each Member acknowledges and agrees that the time of such payment and performance is of the essence of the obligations hereunder. Unless otherwise provided in the Supplemental Indenture relating thereto:

(a) The principal or redemption price of each Note shall be payable upon surrender thereof at the Principal Office of the Master Trustee. Such payments shall be made to the Holder of the Note so surrendered, as shown on the registration books kept by the Master Trustee on the date of payment.

(b) The interest due on any Note in coupon form shall be payable upon surrender of the appropriate coupons at the Principal Office of the Master Trustee. The interest due on any Note in fully registered form shall be payable by check or draft mailed to the Holder thereof, subject to such provisions concerning record dates as may be contained in such Note and in the Supplemental Indenture providing for the issuance thereof.

The obligation of each Member with respect to Required Payments shall not be abrogated, prejudiced or affected by:

(i) the granting of any extension, waiver or other concession given to any Member by the Master Trustee or any Holder or by any compromise, release, abandonment, variation, relinquishment or renewal of any of the rights of the Master Trustee or any Holder or anything done or omitted or neglected to be done by the Master Trustee or any Holder in exercise of the authority, power and discretion vested in them by this Master Indenture, or by any other dealing or thing which, but for this provision, might operate to abrogate, prejudice or affect such obligation;

(ii) the liability of any other Member under this Master Indenture ceasing for any cause whatsoever, including the release of such other Member pursuant to the provisions of this Master Indenture or any Related Supplement from membership in the Obligated Group; or

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(iii) any Member failing to become liable as, or losing eligibility to become, a Member with respect to an Obligation.

Subject to the provisions below with respect to the limitation on the amount payable by the Obligated Group, the obligation of each Member to make Required Payments is a continuing one and is to remain in effect until all Required Payments have been paid in full in accordance with Article XI hereof. All moneys from time to time received by the Obligated Group Representative or the Master Trustee to reduce liability on Obligations, whether from or on account of the Members or otherwise, shall be regarded as payments in gross without any right on the part of any one or more of the Members to claim the benefit of any moneys so received until the whole of the amounts owing on Obligations has been paid or satisfied and so that in the event of any such Member filing bankruptcy, the Obligated Group Representative or the Master Trustee shall be entitled to prove up the total indebtedness or other liability on Obligations Outstanding as to which the liability of such Member has become fixed.

Each such Obligation shall be a primary obligation and shall not be treated as ancillary to collateral with any other obligation and shall be independent of any other security so that the covenants and agreements of each Member hereunder shall be enforceable without first having recourse to any such security or source of payment and without first taking any steps or proceedings against any other Person. The Obligated Group Representative and the Master Trustee are each empowered to enforce each covenant and agreement, as hereinbefore provided, and to enforce the making of Required Payments. Each Member hereby authorizes the Obligated Group Representative and the Master Trustee to enforce or refrain from enforcing any covenant and agreement of the Members hereunder and to make any arrangement or compromise with any particular Member or Members as the Obligated Group Representative or the Master Trustee may deem appropriate, consistent with this Master Indenture and any Supplemental Indenture. Each Member hereby waives in favor of the Obligated Group Representative and the Master Trustee all rights against the Obligated Group Representative, the Master Trustee and any other Member, insofar as is necessary to give effect to any of the provisions of this Section.

Notwithstanding anything in this Master Indenture to the contrary, the Obligated Group's obligation to make any payment when due under this Master Indenture is limited solely to the Pledged Revenues. No other revenues or property of the Obligated Group (other than the Mortgaged Property) are pledged by the Obligated Group to secure payment of Required Payments or the Obligations issued under this Master Indenture. The Master Trustee hereby covenants that it shall not take recourse against any of the Members with respect to the failure by the Members to make any Required Payments except recourse to the Mortgaged Property, the Pledged Revenues and the amounts held in the funds and accounts created under the Related Financing Documents (except any costs of issuance fund or rebate fund) or hereunder, or to such other security as may from time to time be given for the payment of obligations arising out of this Master Indenture or any Supplemental Indenture.

Section 2.7. **Temporary Notes.** Pending preparation of definitive Notes of any series, or by agreement with the purchasers of all Notes of any series, temporary printed or typewritten Notes may be issued, authenticated and delivered in lieu of definitive Notes. At the request of the Obligated Group Representative, the Master Trustee shall authenticate definitive Notes in exchange for and upon surrender of an equal principal amount of temporary Notes. Until so

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by its Secretary or Assistant Secretary. If permitted or required by the Articles of Incorporation, by-laws, code of regulations or corporate resolutions of the Obligated Group Representative, the signatures of other authorized officers may be substituted for the foregoing.

(b) No Guaranty, Hedging Obligation or Ancillary Obligation will be valid for any purpose hereunder until authenticated by an authorized officer of the Master Trustee as having been issued in accordance with the terms and conditions specified herein.

Section 3.3. **Registration, Transfers and Exchanges.**

(a) The registration books with respect to this Master Indenture are to be kept at the Principal Office of the Master Trustee and must contain the names and addresses of all Holders of Guaranties, Hedging Obligations and Ancillary Obligations issued hereunder and any other information which may be necessary for the proper discharge of the Master Trustee's duties hereunder as trustee, registrar, paying agent and transfer agent in respect of such Obligations.

(b) Guaranties, Hedging Obligations and Ancillary Obligations may be transferred or exchanged as follows:

(i) Each Guaranty are to be issued in the name of the holder or holders of the indebtedness being guaranteed or the trustee or other agent acting on behalf of such holder or holders and is to be transferable for the purpose of reflecting a change in the identity of the holder or holders of the indebtedness being guaranteed or the identity of the trustee or other agent acting on behalf of such holder or holders.

(ii) Each Hedging Obligation is to be issued in the name of the counterparty to the Qualified Derivative or the trustee or other agent acting on behalf of such counterparty and is to be transferable for the purpose of reflecting a change in the identity of the counterparty to the Qualified Derivative or the identity of the trustee or other agent acting on behalf of such counterparty.

(iii) Each Ancillary Obligation is to be issued in the name of the counterparty to the reimbursement agreement, liquidity agreement, standby bond purchase agreement or similar agreement entered into in order to evidence or secure financial obligations of a Member in an agreement that is ancillary to any direct Indebtedness, or the trustee or other agent acting on behalf of such counterparty and is to be transferable for the purpose of reflecting a change in the identity of the counterparty or the identity of the trustee or other agent acting on behalf of such counterparty.

(iv) Guaranties, Hedging Obligations and Ancillary Obligations may be issued as either (A) a single instrument in favor of a single Holder in a principal amount equal to the entire indebtedness (or portion thereof) being guaranteed or notional amount of the Qualified Derivative, as applicable, or (B) two or more instruments in favor of an equivalent number of Holders, each in a principal amount equal to the participation of the Holder in the indebtedness (or portion thereof) being guaranteed or participation in the notional amount of the Qualified Derivative, as applicable. If portions of the indebtedness being guaranteed are transferred, any one or more Guaranties covering the affected portions

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exchanged, temporary Notes shall have the same rights, remedies and security hereunder as definitive Notes.

Section 2.8. **Cancellation and Destruction of Surrendered Notes.** The Master Trustee shall cancel and destroy (a) all Notes surrendered for transfer or exchange, for payment at maturity or for redemption (unless the surrendered Note is to be partially redeemed and, if permitted under the terms of the Note, the Master Trustee elects to return the Note, certified as to the redemption, to the Holder thereof), and (b) all Notes purchased by a Member and surrendered to the Master Trustee for cancellation. The Master Trustee shall destroy the Notes in accordance with the customary practices of the Master Trustee and applicable record retention requirements.

Section 2.9. **Acts of Noteholders; Evidence of Ownership.** Any action to be taken by Noteholders may be evidenced by one or more concurrent written instruments of similar tenor signed or executed by such Noteholders in person or by agent appointed in writing. The fact and date of the execution by any Person of any such instrument may be proved by acknowledgment before a notary public or other person empowered to take acknowledgements or by an affidavit of a witness to such execution. Any action by the Holder of any Note shall bind all future Holders of the same Note in respect of anything done or suffered by the Obligated Group Representative or the Master Trustee in pursuance thereof.

Section 2.10. **Appointment of Obligated Group Representative.** Each Member, by becoming a Member, irrevocably appoints the Obligated Group Representative as its agent and true and lawful attorney in fact and grants to the Obligated Group Representative full power to execute a Supplemental Indenture authorizing the issuance of Obligations or series of Obligations and to execute and deliver Obligations and documents related thereto.

ARTICLE III

GUARANTIES, HEDGING OBLIGATIONS AND ANCILLARY OBLIGATIONS

Section 3.1. Issuance of Guaranties, Hedging Obligations and Ancillary Obligations.

Subject to the further conditions specified in Article IV hereof, the Obligated Group will be permitted to issue one or more Guaranties, Hedging Obligations or Ancillary Obligations hereunder. Any such Guaranty, Hedging Obligation or Ancillary Obligation is to be issued in such form and will be issued upon and contain such terms as the Obligated Group determines and as is permitted or required by the applicable provisions hereof, and as is set forth in the Supplemental Indenture providing for the issuance thereof. As a condition to each issuance of a Guaranty, a Hedging Obligation or an Ancillary Obligation, the Master Trustee is to receive an opinion of Counsel (dated as of the date of issue) that such Guaranty, Hedging Obligation or Ancillary Obligation has been duly authorized by the Issuer thereof and that all requirements for the issuance of such Guaranty, Hedging Obligation or Ancillary Obligation hereunder have been satisfied.

Section 3.2. Execution and Authentication.

(a) Each Guaranty, Hedging Obligation or Ancillary Obligation is to be executed by the Chairman or Vice Chairman of the Board of the Obligated Group Representative and attested

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of the indebtedness may be exchanged for one or more replacement Guaranties in an equal aggregate principal amount, if necessary to appropriately reflect the participations of the Holders in the indebtedness (or portion thereof being guaranteed). Similarly, if a Qualified Derivative is assigned in whole or in part to another counterparty, any one or more Hedging Obligations in an equal aggregate principal amount, if necessary to appropriately reflect the participations of the Holders in the Qualified Derivative (or portion thereof).

Each such transfer or exchange of a Guaranty or Hedging Obligation shall be made in the manner set forth in the Supplemental Indenture relating thereto and no transfer or exchange made in any other manner shall be valid for any purpose hereunder. Unless otherwise specified in the Supplemental Indenture providing for the issuance of the Guaranty or Hedging Obligation being transferred or exchanged, the Obligated Group Representative shall pay all costs relating to such transfer or exchange, except for taxes or governmental charges related thereto, which shall be paid by the Holder requesting the transfer or exchange.

Section 3.4. **Payments Under Guaranties, Hedging Obligations and Ancillary Obligations.** Unless otherwise provided in the Supplemental Indenture relating thereto, all payments under each Guaranty, Hedging Obligation or Ancillary Obligation is to be paid by check or draft mailed to the Holder thereof. In the case of a Guaranty, such payments will be due upon written notification to the Master Trustee of any nonpayment of the indebtedness being guaranteed; provided that successive notices shall not be required in the case of a Guaranty of any indebtedness of any Person which has merged or consolidated with or transferred substantially all of its assets to a Member or has otherwise terminated its existence if the Master Trustee shall have received written notice of such occurrence. In the case of a Hedging Obligation or Ancillary Obligation, such payment will be due in accordance with the terms of the Hedging Obligation or Ancillary Obligation.

Section 3.5. **Acts of Holders of Guaranties, Hedging Obligations and Ancillary Obligations.** Any action to be taken by the Holders of any Guaranties, Hedging Obligations and Ancillary Obligations may be evidenced by one or more concurrent written instruments of similar tenor signed or executed by such Holders in person or by agent appointed in writing. The fact and date of the execution by any person of any such instrument may be proved by acknowledgment before a notary public or other person empowered to take acknowledgements or by an affidavit of a witness to such execution. Any action by the Holder of any Guaranty, Hedging Obligation or Ancillary Obligation will bind all future Holders of the same Guaranty, Hedging Obligation or Ancillary Obligation in respect of anything done or suffered by the Obligated Group or the Master Trustee in pursuance thereof.

Section 3.6. **Issuance of Hedging and Ancillary Obligations.** Anything in this Master Indenture to the contrary notwithstanding, the Obligated Group Representative may issue any Hedging Obligation or Ancillary Obligation in the form specified in a Supplemental Indenture.

Hedging Obligations may be issued pursuant to this Master Indenture to any Qualified Provider of one or more Qualified Derivatives in order to evidence and secure one or more of such Qualified Derivatives issued by or with the same Qualified Provider during a single Force or calendar year, as designated by a Member. The Supplemental Indenture pursuant to which such

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Hedging Obligation is issued shall designate the Qualified Derivative to which it relates and the notional or principal amount of the underlying Qualified Derivative.

Ancillary Obligations may be issued pursuant to this Master Indenture to any Person in order to evidence or secure financial obligations of a Member in an agreement that is ancillary to any direct Indebtedness.

Any Hedging Obligation or Ancillary Obligation which is authenticated as an Obligation hereunder will be equally and ratably secured hereunder with all other Obligations issued hereunder, except as otherwise expressly provided herein or therein; provided, however, that any such Hedging Obligation or Ancillary Obligation will be deemed to be Outstanding hereunder solely for the purpose of receiving payment hereunder and shall not be entitled to exercise any rights hereunder, including but not limited to any rights to direct the exercise of remedies, to vote or to grant consents. Except as otherwise expressly provided herein or in the Supplemental Indenture under which an Obligation is issued, all Obligations will be equally and ratably secured hereunder.

ARTICLE IV

SERIES 2020 NOTE AND ADDITIONAL INDEBTEDNESS AND QUALIFIED DERIVATIVES

Section 4.1. **Series 2020 Note.** The Obligated Group is hereby authorized to issue a Note hereunder in such principal amount, bearing interest at such rate or rates and containing such other terms as are set forth in a Supplemental Indenture relating to such Note (such Note being referred to hereinafter as the “**2020 Note**”). The 2020 Note, as an Obligation issued under this Master Indenture, is to be secured by a first lien in the collateral pledged to secure Obligations under Section 6.1 hereof. The Master Trustee will authenticate and deliver such Note at the direction of the Obligated Group Representative.

Section 4.2. **Additional Indebtedness - General Provisions.** Except for the 2020 Note issued pursuant to Section 4.1 hereof, additional Indebtedness (whether in the form of new indebtedness or the assumption of existing indebtedness or the guaranteeing of any new or existing indebtedness) may not be incurred by the Obligated Group except as follows.

(a) Additional Indebtedness may be incurred by a Member, so long as no Event of Default then exists hereunder, as (i) Indebtedness that is secured on a parity basis with the 2020 Note in the collateral pledged under Section 6.1 hereof, (ii) Subordinated Indebtedness, (iii) Non-Recourse Indebtedness, or (iv) Short Term Indebtedness, in each case so long as Charter School has agreed to make additional payments of Base Rentals (as such term is defined in the Leases) under the Leases sufficient to pay the debt service on such additional Indebtedness or Subordinate Indebtedness and which the Charter School would be permitted to incur as Indebtedness (as such term is defined in the Leases) pursuant to the terms of the Leases if incurred directly by the Charter School.

(b) **Non-Recourse Indebtedness.** A Member may incur Non-Recourse Indebtedness without limitation as to principal amount.

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Section 4.4. **Qualified Derivatives.** Each Member may enter into any interest rate swap, cap, collar, floor, forward option, or other hedging agreement, arrangement or security, however denominated or identified if it constitutes a Qualified Derivative but only if the Charter School has agreed to pay additional rent under Section 6.02(b) of the Leases equal to payments due on such Qualified Derivative and the Charter School would be permitted to enter into the Qualified Derivative itself under the terms of Section 10.12 of the Lease.

For purposes of this Master Indenture, the following provisions will be applicable to any Qualified Derivative entered into by a Member.

(a) If a Member desires to secure the regularly scheduled periodic payments and/or termination payments due on a Qualified Derivative with a security interest in the Pledged Revenues of the Obligated Group on a parity basis with Obligations issued under this Master Indenture, the Obligated Group must authorize the issuance of a Hedging Obligation to secure such Qualified Derivative pursuant to a Supplemental Indenture.

(b) Determinations of Net Income Available for Debt Service are not to take into account any extraordinary gains or losses, unrealized gains or losses resulting from the periodic valuation of Qualified Derivatives, or gains or losses resulting from the termination, defeasance or discharge of any Qualified Derivative.

(c) Any posting of collateral by a Member pursuant to the terms of any Qualified Derivative will be considered a “Permitted Encumbrance” for purposes of this Master Indenture. The posting of collateral as well as any payment of any termination or settlement amounts will be considered asset dispositions subject to the provisions of the Master Indenture.

(d) A Member’s liability to make termination payments pursuant to a Qualified Derivative may be either (i) a general unsecured obligation of the Obligated Group, but to be payable solely out of the Pledged Revenues, or (ii) an obligation subordinate to or on parity with the Obligated Group’s duty to make payments with respect to principal or redemption price of, regularly scheduled periodic payments on Hedging Obligations that have been issued as parity Obligations, and interest on Obligations issued pursuant to the Master Indenture; provided, however, that in the case of a subordinated termination payment, such termination payment may be payable only to the extent it does not result in the occurrence of an Event of Default under the Master Indenture. At such time as a Member’s obligation to make a termination payment pursuant to a Qualified Derivative is no longer contingent, i.e., the condition giving rise to the payment of such termination payment has arisen and the amount of termination payment has been quantified, the amount of such termination payment, if the Member’s duty to pay such termination payment is evidenced by a Hedging Obligation, will be deemed to be Indebtedness for purposes of the Master Indenture.

(e) For purposes of the computation of Debt Service Requirements, interest on Long Term Indebtedness with respect to which a Member has entered into a Qualified Derivative will be deemed equal to a net rate that takes into account the regularly scheduled payments made by the Member and the regularly scheduled payments made to or received by the Member under such Qualified Derivative; provided that only such portion of the Long Term Indebtedness as corresponds to the notional amount of such Qualified Derivative will be deemed to bear interest at

Section 4.3. **Issuance as Notes and Guaranties.** Any Indebtedness which is properly incurred pursuant to Section 4.2 hereof may, at the option of the Obligated Group Representative, be evidenced by Notes or issued in the form of Guaranties; provided that such Notes or Guaranties and the Supplemental Indentures relating thereto shall be in such forms and contain such provisions as may be permitted or required hereunder and that the Master Trustee shall have received (as of the date of issue) the following.

(a) A certified resolution of the Board of the Obligated Group Representative approving the incurrence of the Indebtedness and the purpose thereof.

(b) An Officer’s Certificate evidencing and demonstrating compliance with the requirements of Section 4.2(a) for the incurrence of additional parity Indebtedness.

(c) An Officer’s Certificate stating that (i) no Event of Default has occurred and is continuing, and (ii) the applicable requirements for the incurrence of the Indebtedness under this Master Indenture and all Related Financing Documents then in effect have been satisfied.

(d) An executed counterpart or certified copy of a supplement or amendment to one or more Leases providing for additional Base Rentals, if required, sufficient to satisfy the requirements of Section 4.2(a) hereof.

(e) An executed counterpart or certified copy of all Related Financing Documents delivered in connection with the incurrence of the Indebtedness.

(f) An opinion of Counsel to the effect that (i) the incurrence of the Indebtedness has been duly authorized by the Obligated Group Representative, (ii) all applicable requirements for the incurrence of the Indebtedness hereunder and under the terms of any Related Financing Documents then in effect have been satisfied; provided that in connection with any financial requirements, such Counsel may rely on the certificates or reports delivered pursuant to Section 4.2 hereof and (iii) to such Counsel’s knowledge (which may be based on a certificate provided by the Obligated Group Representative), all necessary approvals of all Regulatory Bodies having jurisdiction have been obtained with respect to the incurrence of the Indebtedness.

(g) If any construction (including renovations) is to be financed with the proceeds of the Indebtedness in an amount in excess of 15% of Pledged Revenues for the Fiscal Year most recently completed for which Audited Financial Statements of the Obligated Group are available, an Architect’s certificate or report or an Officer’s Certificate to the effect that (i) the estimated costs of construction are reasonable, and (ii) all necessary approvals for the commencement of such construction either have been obtained from all Regulatory Bodies having jurisdiction or are reasonably expected to be obtained prior to the commencement of such construction.

Upon execution of any particular Supplemental Indenture by the Obligated Group and the Master Trustee, and the delivery of those items required by items (a) through (g) above, the Obligated Group Representative shall execute each Note or Guaranty to be issued thereunder and deliver the same to the Master Trustee for authentication and, at the direction of the Obligated Group Representative, the Master Trustee shall authenticate each such executed Note or Guaranty and deliver the same to the Holders.

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such net rate. So long as such Long Term Indebtedness is deemed to bear interest at a rate taking into account a Qualified Derivative, any payments made by a Member on such Qualified Derivative will be excluded from expenses and any payments received by the Member on such Qualified Derivative will be excluded from revenues.

(f) Each Qualified Hedging Obligation and the Supplemental Indenture relating thereto shall be in such form and contain such provisions as may be permitted or required hereunder and that the Master Trustee shall have received (as of the date of issue) the following.

(i) A certified resolution of the Board of the Obligated Group Representative approving the execution of the Qualified Derivative and the issuance of the related Hedging Obligation and the purpose thereof.

(ii) An Officer’s Certificate stating that (A) no Event of Default has occurred and is continuing and (B) the applicable requirements for entering into the Qualified Derivative and the issuance of such Hedging Obligation under this Master Indenture and all Related Financing Documents then in effect have been satisfied.

(iii) An executed counterpart or certified copy of the related Qualified Derivative and all Related Financing Documents delivered in connection with the issuance of the Hedging Obligation.

(iv) An opinion of Counsel to the effect that (i) entering into the Qualified Derivative and the issuance of the Hedging Obligation has been duly authorized by the Obligated Group Representative, (ii) all applicable requirements for entering into the Qualified Derivative and the issuance of the Hedging Obligation hereunder and under the terms of any Related Financing Documents then in effect have been satisfied; and (iii) to the best of such Counsel’s knowledge that may be based on a certificate of the Obligated Group Representative, all necessary approvals of all Regulatory Bodies having jurisdiction have been obtained with respect to the entering into the Qualified Derivative and the issuance of the Hedging Obligation.

ARTICLE V

REDEMPTION OF OBLIGATIONS

Section 5.1. Redemption of Notes.

(a) Notes of each series shall be subject to optional, mandatory or extraordinary redemption in whole or in part as provided in this Master Indenture, the Notes and the applicable Supplemental Indenture.

(b) The Master Trustee shall give notice of any redemption of Notes as follows:

(i) Each notice of redemption shall be given in such manner and at such time as may be specified in the Supplemental Indenture providing for the issuance of the Notes to be redeemed.

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(ii) Each notice of redemption shall specify the date fixed for redemption, the Notes (or portions thereof) to be redeemed on such date and the redemption price at which such Notes or portions thereof are to be redeemed, and shall state that payment of the redemption price of such Notes or portions thereof to be redeemed will be made in the manner provided in the applicable Supplemental Indenture upon presentation and surrender of such Notes with all coupons, if any, appertaining thereto maturing after the date fixed for redemption, that interest accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue; provided that, if funds for the payment of the redemption price of the Notes to be redeemed are not on deposit with the Master Trustee on the date any such notice is given, the notice shall state that it is conditioned upon the timely making of such deposit of funds and will be of no effect if the deposit is not made.

Except in the case of a scheduled mandatory redemption of Notes, the Obligated Group Representative shall notify the Master Trustee of its intention to redeem such Notes, the proposed redemption date and the principal amount to be redeemed on such date. Any such notice shall be given to the Master Trustee at least 15 days prior to the last date on which the Master Trustee is permitted to give notice of the redemption to the Noteholders pursuant to the applicable Supplemental Indenture.

Section 5.2. **Redemption of Guaranteed Indebtedness.** Any indebtedness guaranteed by the Obligated Group pursuant to a Guaranty issued hereunder may be subject to optional, mandatory or extraordinary redemption. Subject to the limitations contained herein, any such redemption by the Obligated Group of the Guaranty shall be made upon such terms (and upon such notice) as may be specified in the Guaranty, the Related Financing Documents therefor and the applicable Supplemental Indenture.

ARTICLE VI

OBLIGATIONS CREATED HEREUNDER, SECURITY THEREFOR

Section 6.1. **Obligations Created Hereunder: Security For Obligations.** This Master Indenture and the Obligations created hereunder are the limited obligation of the Obligated Group payable solely from the Pledged Revenues. To secure the performance of such obligations, each Member, respectively, hereby sells, assigns, transfers, sets over and pledges unto the Master Trustee and grants a security interest in all of the right, title and interest of each respective Member in and to all of the Pledged Revenues, any rights to receive such Pledged Revenues, and in the Revenue Fund established hereunder, all moneys and investments therein and all income derived from the investment thereof, to have and to hold in trust for the benefit of the Holders from time to time of all Obligations issued and Outstanding hereunder, without preference or priority of any one Obligation over any other Obligation except as otherwise expressly provided herein.

As additional security for the payment of Obligations issued hereunder, the Charter School has agreed in the Leases to cause the School District and the Commonwealth to pay all of the School District Payments directly to the Master Trustee for deposit into the Revenue Fund. The Charter School further agreed to send a written notice, on or before the date of execution of the

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(b) All amounts deposited into the Revenue Fund are to be applied by the Master Trustee or made available to any alternate paying agent appointed pursuant to any Supplemental Indenture for application to the payment of the principal (or redemption or prepayment notice) of and interest on all Obligations, plus amounts required for any other funds created under the Related Financing Documents. Such amounts will be applied at the times and in the amounts required by the Related Financing Documents. Pending such application, all moneys and investments in the Revenue Fund is to be held for the equal and ratable benefit of the Holders of all Obligations issued and Outstanding hereunder; provided that, on and after the due date for any payment in respect of any such Obligation the amount held in the Revenue Fund for the making of such payment will be reserved and set aside solely for the purpose of making such payment.

(c) Following the payment of amounts due on an Obligation, any amounts remaining in the Revenue Fund and not needed for the payment on an Obligation are to be returned promptly to the Charter School.

Section 6.3. **Reserved.**

Section 6.4. **Reserved.**

Section 6.5. **Investment of Funds.**

(a) Moneys held in the Revenue Fund are to be invested and reinvested in Investment Securities which mature or are redeemable at the option of the holder not later than such times as shall be required to provide moneys needed to make payments or transfers therefrom. Subject to the foregoing, such investments shall be made in accordance with written instructions received by the Master Trustee from the Obligated Group Representative. Unless otherwise provided in this Master Indenture, the Master Trustee shall sell, or present for redemption, any Investment Securities so acquired whenever it is requested so to do in a certificate of the Obligated Group Representative or whenever it is necessary to provide moneys to make any payment or transfer from the Revenue Fund, as applicable. The Master Trustee will not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment and may conclusively presume that any investment directed by the Obligated Group Representative is a permitted investment under this Master Indenture. All investment income and any gain from the sale or other disposition of any Investment Securities in the Revenue Fund is to be retained in the respective fund and the amount so retained as of each June 15 and December 15 will be applied as credits against the next deposits to be made pursuant to Section 6.2(a)(i). All losses realized upon the sale or other disposition of such Investment Securities will be charged to the applicable fund to which such loss relates and added, on a pro rata basis, to the deposit next becoming due in respect of each Outstanding Obligation hereunder, in the case of the Revenue Fund.

(b) The following two additional requirements will be applicable to Investment Securities in the form of certificates of deposit, repurchase agreements or investment agreements, unless issued by or entered into with a Qualified Financial Institution:

(i) Except in the case of certificates of deposit (but only to the extent such certificates of deposit are insured by the Federal Deposit Insurance Corporation), such

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Leases, to the School Districts and the Commonwealth directing each of them to make the School District Payments directly to the Master Trustee.

Such Obligations may also be secured by the Mortgage and any and all real or personal property of every name and nature from time to time conveyed, mortgaged, pledged, assigned or transferred by delivery or by writing of any kind, by the Obligated Group Representative, or by anyone on its behalf or with its written consent, to the Master Trustee as and for additional security for all Obligations on a parity basis unless the Supplemental Indenture(s) executed in connection with the issuance of an Obligation otherwise limits the security for same.

Any one or more series of Obligations issued hereunder may be secured by security in addition to that pledged hereunder and such additional security need not extend to any other Obligation if the Supplemental Indenture pursuant to which such Obligation is issued so specifies.

Section 6.2. **Revenue Fund.**

(a) The Master Trustee is to establish and maintain a Revenue Fund hereunder and is to make deposits therein as follows:

(i) On or before the date specified in the Supplemental Indenture under which an Obligation is issued, the Members, on a joint and several basis, will deposit in the Revenue Fund an amount equal to the payments due on the next succeeding payment date with respect to the principal (including mandatory redemptions) and interest payable under the terms of each Note, the regularly scheduled periodic payment on a Hedging Obligation and each Guaranty as to which notification of nonpayment of the guaranteed indebtedness has been given as required under Section 3.4 hereof.

(ii) On or before the date of any optional or extraordinary redemption of Obligations, including any parity termination payments under a Hedging Obligation, the Members, on a joint and several basis, will deposit in the Revenue Fund the amount necessary to provide for the payment of the redemption or prepayment price then becoming due or deliver to the Master Trustee evidence satisfactory to the Master Trustee that the same has been paid.

(iii) Upon receipt, School District Payments paid directly to the Master Trustee pursuant to written notice given to the School Districts and the Commonwealth in accordance with Section 6.02(c) of the Leases.

(iv) Such deposit requirements are to be subject to credit as provided in the Supplemental Indenture under which the Obligations are issued, Section 6.5 hereof and, if appropriate with respect to any Note or any Guaranty described above, for interest funded from the proceeds of such Note or the indebtedness guaranteed pursuant to such Guaranty, or as otherwise allowed by any Related Financing Document.

For the purposes of the foregoing, the Master Trustee shall provide the Obligated Group Representative with such periodic reports as are reasonably necessary to keep the Obligated Group advised of the deposit requirements of the Revenue Fund, taking into account all available credits and required payments from the Fund.

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Investment Securities must be secured by Government Obligations having an aggregate market value which meets the requirements set forth in Exhibit A hereto. If the value of such collateral for any certificate of deposit, investment agreement or repurchase agreement is less than the amount specified in Exhibit A and the deficiency is not cured as therein described, the Master Trustee shall withdraw the amount on deposit under the certificate of deposit or investment agreement or accelerate the seller's repurchase obligations under the repurchase agreement and, to the extent necessary to realize such amount, the Master Trustee shall liquidate the collateral.

(ii) The Master Trustee must have a perfected security interest in all collateral for such Investment Securities, free and clear of the claims of third parties. Such security interests shall be perfected in such manner as may be permitted or required by applicable law, provided that if possession of the collateral is required for such perfection, the collateral shall be deposited with the Master Trustee, with a Federal Reserve Bank for the account of the Master Trustee or with a bank or trust company (other than the obligor) which is acting solely as agent for the Master Trustee and has a combined net capital and surplus of at least \$100,000,000.

(iii) The Obligated Group acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Obligated Group the right or option to receive individual confirmation of security transactions at no additional cost, as they occur, the Obligated Group Representative specifically waives the option to receive such confirmation to the extent permitted by law. The Master Trustee will furnish the Obligated Group Representative with periodic cash transaction statements that include detail for all investment transactions made by the Master Trustee hereunder.

The Master Trustee may elect, but shall not be obligated, to credit the funds and accounts held by it with the moneys representing income or principal payments due on, or sales proceed due in respect of, Investment Securities in such funds and accounts, or to credit to Investment Securities intended to be purchased with such moneys, in each case before actually receiving the requisite moneys from the payment source, or to otherwise advance funds for account transactions. The Obligated Group acknowledges that the legal obligation to pay the purchase price of Investment Securities arises immediately at the time of the purchase. Notwithstanding anything else in this Master Indenture, (i) any such crediting of funds or assets shall be provisional in nature, and the Master Trustee shall be authorized to reverse any such transactions or advances of funds in the event that it does not receive good funds with respect thereto, and (ii) nothing in this Master Indenture shall constitute a waiver of any of Master Trustee's rights as a securities intermediary under Uniform Commercial Code §9-206.

Section 6.6. **Financing Statements.**

The Members will execute, file or record any initial financing statements (excluding continuation statements as described below), and other documents under the Pennsylvania Uniform Commercial Code or such other applicable law and will pay the costs of filing the same in such public offices as appropriate for the purpose of perfecting or continuing the perfection of the security interests granted hereunder.

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The Obligated Group shall be responsible for, and Master Trustee shall not be responsible for and makes no representation as to, the legality, effectiveness or sufficiency of any security document or for the creation, perfection, priority or protection of any lien securing the Obligations. The Master Trustee shall not be responsible for recording any documents or instruments in any public office at any time or otherwise for perfecting or maintaining the perfection of any lien or security interest in the trust estate it being understood that the Obligated Group shall be obligated to make such filings on behalf of the Master Trustee. The Master Trustee shall not be responsible for filing or for the sufficiency or accuracy of any financing statements initially filed to perfect security interests granted under this Master Indenture. The Master Trustee shall file continuation statements with respect to each U.C.C. financing statement relating to the trust estate filed by the Obligated Group at the time of the issuance of an Obligation; provided that a copy of the filed initial financing statement is timely delivered to the Master Trustee. In addition, unless the Master Trustee shall have been notified in writing by the Obligated Group Representative that any such initial filing or description of collateral was or has become defective, the Master Trustee shall be fully protected in (a) relying on such initial filing and descriptions in filing any financing or continuation statements or modifications thereto pursuant to this section and (b) filing any continuation statements in the same filing offices as the initial filings were made. The Obligated Group shall be responsible for the customary fees charged by the Master Trustee for the preparation and filing of continuation statements and for the reasonable costs incurred by the Master Trustee in the preparation and filing of all continuation statements hereunder, including attorneys' fees and expenses. These fees shall be considered "extraordinary services" fees. Prior to the filing of any such continuation statements the Master Trustee may retain counsel and rely upon its opinion in all respects as to any such filing.

ARTICLE VII

ADDITIONAL COVENANTS

Section 7.1. Payment of Principal, Premium, Interest and Other Amounts.

Each Member will, on a joint and several basis, be liable for the payment of, and will duly and punctually pay the principal of, premium, if any, regularly scheduled periodic payments and parity termination payments on a Hedging Obligation, and interest on all Obligations issued under this Master Indenture, and any other payments required by the terms of such Obligations, on the dates, at the times and at the place and in the manner provided in such Obligations, the applicable Supplemental Indenture and this Master Indenture when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise, according to the true intent and meaning hereof. Notwithstanding anything else herein to the contrary, the payments described in this Section 7.1 shall be payable in each case solely from the Pledged Revenues and the other funds or property pledged pursuant to Section 6.1.

Section 7.2. Due Authorization of Indenture and Notes.

Each Member hereby represents and warrants that: (a) it is duly authorized under the laws of the jurisdiction under which it is organized and under all other applicable provisions of law to execute and deliver this Master Indenture and to provide for the creation and issuance of Obligations hereunder as permitted by this Master Indenture; and (b) all corporate action on the

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(e) promptly pay or otherwise satisfy and discharge all of its obligations and indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations issued and Outstanding hereunder) whose validity, amount or collectability is being contested in good faith by appropriate proceedings, provided that, if by continued non-payment of any such sums, the pledge and security interest of this Master Indenture will be materially impaired or the Pledged Revenues or title to its respective Mortgaged Property will be subject to imminent loss or forfeiture, then such sums shall be paid immediately;

(f) at all times comply with all terms, covenants and provisions contained in any lien or security interest at such time existing upon its respective Mortgaged Property or any part thereof or securing any of its indebtedness and pay or cause to be paid, or to be renewed, refunded or extended, or to be taken up, by it, all of its indebtedness secured by a lien or security interest, as and when the same shall become due and payable;

(g) procure and maintain, or require that the Charter School procure and maintain, all licenses, permits, approvals, certifications and accreditations issued by any Regulatory Bodies which are necessary or desirable for the maintenance of its respective Mortgaged Property and any other properties related to production of the Pledged Revenues, conduct of its operations and performance of its obligations hereunder; provided, however, that it need not comply with this Section 7.3(g) if and to the extent that its Board shall have determined in good faith, evidenced by a resolution of the Board, that such compliance is not in the best interests of the Obligated Group and that lack of such compliance would not materially impair the ability of the Member to pay its indebtedness when due; and

(h) take no action or suffer any action to be taken by others which will adversely affect any applicable exemption from federal income taxation of the interest on any bonds issued pursuant to and secured by the Related Financing Documents for any Obligations or other indebtedness incurred or permitted to be incurred hereunder.

Section 7.4. Employment of Architect, Consultant, Counsel, Independent Public Accountant or Insurance Consultant.

(a) The Members must employ an Architect, a Consultant, Counsel, an Independent Public Accountant and an Insurance Consultant to the extent necessary to perform the services required hereunder and under any Related Financing Documents. Each such person shall be licensed, certified or otherwise qualified to do business and to perform the required services in the Commonwealth (provided that Counsel need only be licensed to practice before the highest court in any state or the District of Columbia) and is to have a favorable reputation for skill and experience in the performance of such services. The employment of any Person in any such capacity who is unsatisfactory to the Master Trustee in its reasonable discretion will not be deemed to satisfy the requirements of this Master Indenture.

(b) Selection of Consultants Following Breach of Financial Covenants Under Leases. In the event that the Charter School is required under Section 10.08 of the Leases to engage a Consultant for the purposes specified therein, the Obligated Group agrees that it will cause such Consultant to be selected promptly and will cause a notice of the selection of such Consultant,

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part of the Member required by its Articles of Incorporation and by-laws or code of regulations and by the laws of the jurisdiction under which it is organized for the execution, delivery and performance of this Master Indenture has been taken and, prior to the creation and issuance of each Obligation hereunder, all similar corporate action required for the creation and issuance of each Obligation will have been duly and effectively taken by the Member.

Section 7.3. Covenants as to Corporate Existence, Maintenance of the Mortgaged Property, Etc.

Each Member will:

(a) subject to Section 7.10 hereof, preserve its corporate existence and all its rights and licenses to the extent necessary or desirable in the operation of its business affairs and be qualified to do business in each jurisdiction where its ownership of its respective Mortgaged Property or the conduct of its business requires such qualification; provided, however, that nothing herein contained shall be construed to obligate it to retain or preserve any of its rights or licenses no longer used or, in the judgment of its Board, useful in the conduct of its business;

(b) at all times cause its business to be carried on and conducted in an efficient manner and its properties to be maintained, preserved and kept in good repair, working order and condition and all needful and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing herein contained shall be construed (i) to prevent it from ceasing to operate any portion of its respective Mortgaged Property, if in the judgment of its Board it is advisable not to operate the same for the time being, or if it intends to sell or otherwise dispose of the same as permitted hereunder and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace its respective Mortgaged Property, or any related leases, rights, privileges or licenses no longer used or, in the judgment of its Board, useful in the conduct of its business;

(c) conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the several states thereof to the extent applicable and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its respective Mortgaged Property; provided, nevertheless, that nothing herein contained shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof shall be contested in good faith;

(d) promptly pay all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it, the Pledged Revenues or its respective Mortgaged Property; provided, however, that it shall have the right to contest in good faith by appropriate proceedings any such taxes, charges or assessments or the collection of any such sums and pending the result of such contest may delay or defer payment thereof, provided that, if by continued non-payment of any such sums, the pledge and security interest of this Master Indenture will be materially impaired or the Pledged Revenues or title to its respective Mortgaged Property will be subject to imminent loss or forfeiture, then such sums shall be paid immediately;

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including the name of such Consultant and a brief description of the Consultant, to be (A) sent to the holder of each Obligation then Outstanding under the Master Indenture and (B) filed with EMMA (such EMMA filing being required only if a Member has, as of such date, agreed to provide continuing disclosure of financial and operating data pursuant to any Related Financing Documents). Each such Holder may approve or reject such Consultant within 15 days of such notice being sent or filed as required by the preceding sentence; provided, however, that failure to approve or reject such Consultant within 15 days will be deemed approval by such Obligation Holder. If the Holders of at least a majority of the aggregate principal amount of the Obligations Outstanding do not approve or are not deemed to have approved the Consultant selected, the Obligated Group Representative must cause another Consultant to be selected and must provide notices of the selection of the new Consultant as provided above.

Section 7.5. Insurance.

(a) Each Member must keep its respective property, plant and equipment and all of its operations adequately insured at all times in amounts which are customarily carried, subject to customary deductibles and against such risks are customarily insured against, by other organizations in connection with the ownership and operation of facilities of similar character and size.

(b) In furtherance of the foregoing, each Member must purchase and maintain, or cause to be purchased and maintained, continuously in effect insurance against such risks, both generally and specifically with respect to its respective Mortgaged Property, as are customarily insured against by institutions of similar size and character, paying as the same become due all premiums in respect thereto, but including at least coverage of the types and in the amounts specified in Section 8.04 of the Leases.

The Members must employ, or cause the Charter School to employ, an independent Insurance Consultant to review the insurance requirements of the Obligated Group from time to time (but not less frequently than once every five years). If such Insurance Consultant makes recommendations for the change of any of the coverage required by Section 8.04 of the Leases, the Obligated Group must change, or cause the Charter School to change, such coverage in accordance with such recommendations, subject to a good faith determination of the governing body of the Obligated Group Representative that such recommendations, in whole or in part, are not in the best interests of the Obligated Group.

Section 7.6. Application of Insurance Proceeds and Condemnation Awards.

(a) Each Member shall notify the Master Trustee in writing of any damage to or any destruction or condemnation (or other similar taking or conveyance in lieu thereof) of its respective Mortgaged Property in excess of 10% of the net book value of such Mortgaged Property immediately before the occurrence in question. Except as otherwise required in the Related Financing Documents for any Indebtedness (other than Obligations) secured by such Mortgaged Property, any insurance proceeds, condemnation awards (or other similar amounts) received in respect of an occurrence at the Mortgaged Property will be applied as follows:

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(i) such amounts shall be applied to the reconstruction, replacement or repair of the Mortgaged Property if such action is both practicable and financially feasible; provided that (A) if such proceeds exceed the amount necessary for such reconstruction, replacement or repair, the excess will be applied to the Extraordinary Redemption or Optional Redemption of the Obligations (allocated to each such Obligation on a proportionate basis), (B) if such proceeds are insufficient to reconstruct, replace or repair the Mortgaged Property to its revenue-producing capability prior to such event, then, if such action is both practicable and financially feasible, the Member will provide the balance necessary to reconstruct, replace or repair its respective Mortgaged Property, and (C) no such reconstruction, replacement or repair shall be required if it is unnecessary;

(ii) any amounts not permitted or required to be applied to the reconstruction, replacement or repair of the applicable Mortgaged Property are to be applied to the extraordinary redemption without premium or penalty of Obligations subject to such redemption (allocated to each such Obligation on a proportionate basis), provided that no such extraordinary redemption will be required if it is unnecessary; and

any amounts not permitted or required to be applied pursuant to subparagraphs (i) and (ii) above may be used for such lawful purposes as the Member determines.

All proceeds of insurance shall be held by the Master Trustee in the Insurance Proceeds Fund, which account is hereby created, whereupon the Master Trustee, upon receipt of a completed requisition signed by an Obligated Group Representative that such payment is required for such purpose, will apply so much as may be necessary of the proceeds of such insurance to payment of the costs of such repair, rebuilding or restoration as the work progresses. Obligated Group shall not by reason of the payment of such excess costs be entitled to any reimbursement from the Master Trustee.

(b) For the purpose of determining whether any particular application of funds described in subsection (a) above will be permitted or required hereunder:

(i) any reconstruction, replacement or repair will be deemed practicable if it can be completed in accordance with applicable laws and regulations and if the moneys available therefor (including insurance proceeds, condemnation awards and other similar amounts) are adequate for the purpose, taking into account the nature of the affected Property and the nature and cost of the reconstruction, replacement or repair;

(ii) any reconstruction, replacement or repair will be deemed financially feasible, if, as of the date of determination, no Event of Default has occurred and is continuing and no Event of Default is projected or forecasted to occur within the next two Fiscal Years; and

(iii) any reconstruction, replacement or repair or any extraordinary redemption, as the case may be, will be deemed unnecessary if the Mortgaged Property is comprised of land upon which no buildings or other permanent improvements are situated, provided that all easements and rights-of-way necessary for the proper operation of the Mortgaged Property not so affected are appropriately provided.

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applicable Mortgage and lessor under the applicable Lease immediately after such merger, consolidation, division, sale or conveyance;

(ii) the Master Trustee will have received an opinion of Counsel stating whether the merger, consolidation, division, sale or conveyance will adversely affect the tax exemption status, if any, of the Member or successor corporation under the income tax laws of the United States of America or any jurisdiction or jurisdictions within which it is organized or conducts business;

(iii) no Event of Default has occurred and is then continuing;

(iv) no default or event of default under the Mortgages or the Leases has occurred and is then continuing; and

(v) the Debt Service Coverage Ratio with respect to the Pledged Revenues or the successor corporation assuming the Obligated Group's obligations hereunder for each of the two Fiscal Years following the Fiscal Year in which such event takes place is projected to be at least 1.2 to 1.0, with such projection to be evidenced by a Certificate of a Consultant delivered to the Master Trustee; and (v) there will have been delivered to the Master Trustee an opinion of nationally recognized bond counsel to the effect that the consummation of such merger, consolidation, division, sale or conveyance will not adversely affect any applicable exemption from federal income taxation of the interest payable on any outstanding bonds which were previously issued pursuant to and are secured by the Related Financing Documents for any Obligations or other Indebtedness incurred or permitted to be incurred hereunder or any similar indebtedness of any successor corporation.

(b) Any corporation which succeeds to and assumes the obligations of a Member pursuant to subsection (a) above will be required to execute and deliver to the Master Trustee such documents and instruments as are, in the opinion of Counsel, necessary or appropriate for the purpose of effectuating such succession and assumption. Thereafter, the successor corporation will be deemed a Member for all purposes hereunder.

Section 7.11. Filing of Financial Statements, Certificate of No Default Other Information. Each Member will:

(a) as soon as practicable but in no event later than 181 days after the end of each of its Fiscal Years, file with the Master Trustee Audited Financial Statements of such Member as of the end of such Fiscal Year;

(b) as soon as practicable but in no event later than 181 days after the end of each Fiscal Year, file with the Master Trustee an Officer's Certificate stating whether to the best knowledge of the signers the Member is in default in the performance of any covenant contained in this Master Indenture and, if so, specifying each such default of which the signers may have knowledge;

(c) if an Event of Default has occurred and is continuing, (i) file with the Master Trustee such other financial statements and information concerning the operations and financial affairs of the Member (or of any consolidated group of companies of which the Member is a

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The foregoing determinations will be made by the Obligated Group Representative; provided that, if the estimated cost of any reconstruction, replacement or repair (excluding land acquisition and equipment costs) exceeds 20% of the net book value of the property, plant and equipment of the Obligated Group for the Fiscal Year immediately preceding the occurrence of the damage, destruction or condemnation (or other similar taking or conveyance in lieu thereof), exclusive of properties securing Non-Recourse Indebtedness, any determination as to the practicability thereof will be made by an Architect and any determination as to the financial feasibility thereof will be made by a Consultant.

Section 7.7. Reserved.

Section 7.8. Permitted Encumbrances.

Except for Permitted Encumbrances, the Members shall not create or suffer to be created or to exist any lien, encumbrance or charge upon the Mortgaged Property or the Pledged Revenues, and the Members shall satisfy or cause to be discharged, or make adequate provision to satisfy and discharge, within sixty days after the same shall accrue, all lawful claims and demands for labor, materials, supplies or other items which, if not satisfied, might by law become a lien upon any such property or asset. Nothing in this Section 7.8 shall require the Members to satisfy or discharge any such lien, encumbrance, charge, claim or demand so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

Section 7.9. Lease or Other Disposition of the Mortgaged Property.

In addition to the Leases, the Members shall have the right to lease all or any part of its respective Mortgaged Property; provided, however, that the terms and provisions of any future leases will allow the Member to comply with the provisions of this Master Indenture and any Related Financing Documents, and, with respect to any lease there shall have been delivered to the Master Trustee an opinion of nationally recognized bond counsel to the effect that the execution of such proposed lease will not adversely affect any applicable exemption from federal income taxation of the interest payable on any outstanding bonds which were previously issued pursuant to and are secured by the Related Financing Documents for any Obligations. Other than leases permitted by this Section, the Members agree that it will not sell or otherwise dispose of the Mortgaged Property.

Section 7.10. Consolidation, Merger, Sale or Conveyance.

(a) No Member will merge or consolidate with or sell or convey all or substantially all of its assets to any Person unless:

(i) the successor corporation (if other than a Member) (A) is a corporation organized and existing under the laws of the United States of America or a state thereof, (B) expressly assumes the due and punctual payment of the principal of, premium, if any, interest on and all other amounts payable in respect of all outstanding Obligations and other Indebtedness incurred or permitted to be incurred hereunder, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of this Master Indenture to be performed or observed by a Member and (C) will succeed to the Member's status as mortgagor of its respective Mortgaged Property under the

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member) as the Master Trustee may from time to time reasonably request, and (ii) provide access to the facilities of the Member for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request; and

(d) maintain such books and records and provide such reports and certificates as are required pursuant to the terms of any Related Financing Documents.

Section 7.12. Compliance with Related Financing Documents. Nothing herein contained is to be construed as relieving the Members of any of its respective obligations under the terms of any Related Financing Documents. Without limiting the generality of the foregoing, the Members will not take or cause to be taken any action permitted pursuant to the terms hereof except upon compliance with such additional requirements as may be applicable thereto under the terms of such Related Financing Documents.

Section 7.13. Environmental Representations. Except as set forth in the any environmental reports delivered to the Master Trustee, each Member and its respective successors and assigns hereby represents and warrants:

(a) **Condition of Mortgaged Property.** To the best of its knowledge, after due inquiry, its respective Mortgaged Property, including all personal property, is free from contamination by Regulated Chemicals, including, but not limited to, friable asbestos, and there has not been thereon a release, discharge or emission, or a threat of release, discharge or emission, of any Regulated Chemical on, under, in, or about such Mortgaged Property, nor has any such Regulated Chemical migrated or threatened to migrate from other properties upon, about or beneath its respective Mortgaged Property.

(b) **Previous Use of Mortgaged Property.** Neither the Member nor any previous owner, tenant, occupant or user of the Mortgaged Property, nor any other Person, to the best of such Member's knowledge and after due inquiry, has engaged in or permitted any operations or activities upon, or any use or occupancy of the Mortgaged Property, or any portion thereof, whether legal or illegal, accidental or intentional, for the purpose of or in any way involving the handling, manufacture, treatment, storage, use, generation, release, discharge, refining, dumping or disposal of any Regulated Chemical, on, under, in, or about its respective Mortgaged Property, nor has any such party transported any Regulated Chemical to, from or across such Mortgaged Property.

(c) **Property Adjoining Mortgaged Property.** To the best of its knowledge, and after due inquiry, any adjoining property has not been used as a manufacturing, storage or disposal site for Regulated Chemicals nor is any other property adjoining the Mortgaged Property affected by a violation of Environmental Requirements.

(d) **Compliance with Environmental Requirements.** To the best of its knowledge, the Mortgaged Property owned by the Member is in compliance with all applicable Environmental Requirements and the Member has all permits and licenses required to be issued under the Environmental Requirements and is in full compliance with the terms and conditions of such permits and licenses; such permits and licenses are in full force and effect; and no changes exist in the facts or circumstances reported or assumed in the application for or granting of such permits or licenses.

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(e) No Notice of Violations of Environmental Requirements. The Member has not received any notice, whether written or oral, concerning its respective Mortgaged Property owned by the Member, for any alleged violation or requiring compliance of Environmental Requirements, whether or not corrected to the satisfaction of the appropriate authority, or notice or other communication concerning alleged liability for Environmental Damages in connection with its respective Mortgaged Property owned by the Member, and the Member has received no notice that there exists any investigation, administrative order, consent order and agreement, litigation, settlement or judgment, whether proposed, threatened, anticipated or in existence with respect to the Mortgaged Property owned by the Member.

(f) No Knowledge. The Member does hereby and specifically represent and warrant that it has no affirmative knowledge or reason to believe that any condition, previous use, compliance or violation of Environmental Requirements are contrary to the description in this Section.

(g) Survival of Representations and Warranties. The representations and warranties set forth in this Section shall survive the expiration or termination of this Master Indenture, the payment of the Obligations, and the discharge of any obligations owed by the parties to each other and will survive any transfer of title to the Mortgaged Property, whether by foreclosure, or otherwise and shall not be affected by any investigation by or on behalf of the Master Trustee or any information which the Master Trustee may have or obtain with respect thereto.

Section 7.14. Environmental Covenants.

(a) Use of Mortgaged Property. No Member will intentionally or unintentionally conduct, or allow to be conducted, any business, operation, or activity on, under, or in its respective Mortgaged Property, or employ or use its respective Mortgaged Property or allow for it to be employed or used, to manufacture, transport, treat, store, or dispose any Regulated Chemical which would violate or potentially violate Environmental Requirements, including, but not limited to, any action which would: (1) bring the Member, or its respective Mortgaged Property, within the ambit of, or otherwise violate, the Resource Conservation and Recovery Act of 1976, as amended by the Solid and Hazardous Waste Amendments of 1984, 42 U.S.C. §§ 6901, et seq.; (2) cause, or allow to be caused, a release or threat of release, of hazardous substances on, under, in, or about its respective Mortgaged Property as defined by, and within the ambit of, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§ 9601, et seq.; (3) violate the Clean Air Act of 1970, as amended, 42 U.S.C. §§ 7401, et seq., or other similar state, regional or local statute, law, regulation, rule or ordinance, including without limitation, the laws of the Commonwealth, or any other statute providing for the financial responsibility for cleanup for the release or threatened release of substances provided for thereunder. Each Member will do and will make reasonable efforts to not permit any act or thing, business or operation, that materially increases the dangers, or poses an unreasonable risk of harm, or impairs, or may impair, the value of its respective Mortgaged Property, or any part thereof.

(b) Maintenance of Mortgaged Property. Each Member shall maintain its respective Mortgaged Property free from contamination by Regulated Chemicals and shall not intentionally or unintentionally allow a release, discharge or emission, or threat of release, discharge or

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(g) Additional Environmental Reports. As long as there are any Obligations Outstanding, each Member shall provide the Master Trustee with a copy of any environmental report performed during that time.

(h) Right of Inspection.

(i) The Master Trustee at any time and from time to time, with reasonable cause and notice, either prior to or after the occurrence of any Event of Default hereunder, may require the Obligated Group Representative, at its expense, to submit to the Master Trustee within ninety (90) days of either the notice required under Section 9.02 hereof or a written request from the Master Trustee, a written report of a site assessment and environmental audit ("Environmental Assessment"), in scope, form and substance, and prepared by an independent, competent and qualified engineer, satisfactory to the Master Trustee, showing that the engineer made all appropriate inquiry consistent with good commercial and customary practice, such that consistent with generally accepted engineering practice and procedure, no evidence or indication came to light which would suggest there was a release of substances on, under, in, or about any Mortgaged Property which could necessitate an environmental response action, and which demonstrates that the Mortgaged Property complies with, and does not deviate from, all applicable environmental statutes, laws, ordinances, rules and regulations, including any licenses, permits or certificates required thereunder, and that each Member is in compliance with, and has not deviated from, the representations and warranties set forth in this Article.

(ii) Each Member hereby grants, and will cause any tenants or users of its respective Mortgaged Property to grant, to Master Trustee, its agents, attorneys, employees, consultants and contractors, upon reasonable notice, and under reasonable conditions established by such Member, which do not impede the performance of the Environmental Assessment, an irrevocable license and authorization to enter upon and inspect the Mortgaged Property, and perform such sampling, tests, and analysis ("Tests") including without limitation, subsurface testing, soils and groundwater testing, and other tests which may physically invade the Mortgaged Property, as the Master Trustee or its agent determines is necessary.

(iii) Each Member will cooperate with the consultants and supply to the consultants such historical and operational information as may be reasonably requested by the consultants, together with any notices, permits or other written communications pertaining to violations of Environmental Requirements and any and all necessary information and make available personnel having knowledge of such matters as may be required by the Master Trustee, Trustee's agents, consultants and engineers to complete an Environmental Assessment or Tests.

(iv) Should either Member fail to perform an Environmental Assessment within the time period set forth in this Section, Master Trustee shall have the right but not the obligation to retain an environmental consultant to perform said Environmental Assessment at such Member's expense.

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emission, of any Regulated Chemical on, under, in or about its respective Mortgaged Property, and shall not permit the migration or threatened migration from other properties upon, about or beneath its respective Mortgaged Property.

(c) Notice of Environmental Problem. Each Member shall promptly provide a copy to Trustee, and in no event later than fifteen (15) days from such Member's receipt or submission, of any notice, letter, citation, order, warning, complaint, inquiry, claim or demand (provided that such Member shall only forward to the Master Trustee those notices, letters, citations, orders, warnings, complaints, inquiries, claims or demands actually received by such Member) that: (i) the Member and/or any tenants have violated, or are about to violate, any federal, state, regional, parish or local environmental, health, or safety statute, law, rule, regulation, ordinance, judgment or order; (ii) there has been a release, or there is a threat of release, of any Regulated Chemical from its respective Mortgaged Property; (iii) the Member and/or any tenants may be or are liable, in whole or in part, for the costs of cleaning up, remediating, removing or responding to a release of any Regulated Chemical; or (iv) any portion of its respective Mortgaged Property is subject to a Lien in favor of any governmental entity for any liability, costs or damages, under Environmental Requirements arising from, or costs incurred by such governmental entity in response to, a release of any Regulated Chemical. Each Member shall cause the Charter School to comply with this subsection (c).

(d) Response Action. Each Member shall take all appropriate responsive action, including any removal and remedial action ("Response Action"), in the event of a release, emission, discharge or disposal of any Regulated Chemical in, on, under or about its respective Mortgaged Property, so as to remain in compliance with the above, and to keep its respective Mortgaged Property free from, and unaffected by, Regulated Chemicals. Each Member shall (i) provide Trustee, within ten (10) days after providing the notice required under subsection (c) above, with a bond, letter of credit or similar financial assurance which is equal to the cost of the Response Action and which may be drawn upon by the Master Trustee for the purpose of completing the Response Action if an Event of Default occurs or if the Response Action is not completed within six months of the issuance of the financial assurance and (ii) discharge any assessment, Lien or encumbrance which may be established on its respective Mortgaged Property as a result thereof.

(e) No Liens or Encumbrances. Each Member shall prevent the imposition of any Liens or encumbrances against its respective Mortgaged Property for the costs of any response, removal, or remedial action or cleanup of any Regulated Chemicals. Should such a lien or encumbrance be levied on such Mortgaged Property, the applicable Member shall follow the procedure set forth in subsection (d) above.

(f) Compliance with Environmental Requirements. Each Member shall carry on the business and operations at its respective Mortgaged Property to comply in all respects and will continue to remain in compliance with all applicable Environmental Requirements and maintain all permits and licenses required thereunder, and shall deliver to the Master Trustee an annual certificate of an authorized officer as to such Member's compliance with this paragraph.

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(v) The cost of performing any Environmental Assessment shall be paid by the applicable Member upon demand of Master Trustee and any such obligations shall be included in the Indebtedness.

(vi) If an Environmental Assessment reveals any violations of Environmental Requirements or a Member receives a notice of a violation of Environmental Requirements, and such Member fails to cure the violation in the time period and the manner specified in Section 10.01(d) hereof, such action will constitute an Event of Default.

(i) No Assumption of Risk. The Master Trustee's rights under this Section shall be exercised by it in its sole discretion and not for the benefit of the Obligated Group. The Master Trustee shall have no obligation (unless directed and indemnified as provided in this Master Indenture) to enter into the Mortgaged Property thereon or to take any other action which is authorized by this Article for the protection of its security interest. The Obligated Group specifically agrees and acknowledges that any action permitted under this Section shall not be construed to be the management or control of the Mortgaged Property by the Master Trustee.

Section 7.15. Environmental Indemnity.

(a) In addition to and not in lieu of the indemnification set forth elsewhere in this Master Indenture, each Member and its respective successors, heirs and assigns, shall and do hereby indemnify and hold harmless the Master Trustee, its successors, assigns, trustees, directors, officers, employees, agents, contractors, subcontractors, licensees, and invitees (collectively referred to in this Section as "Indemnified Parties"), for, from and against any and all Environmental Damages that the Indemnified Parties may incur as well as any and all loss, costs, damages, exemplary damages, natural resources damages, liens, and expenses, (including, but not limited to, reasonable attorneys' and paralegals' fees and expenses and any and all other costs incurred in the investigation, defense and settlement of claims) that Indemnified Parties may incur as a result of or in connection with the assertion against Indemnified Parties, or against all or a portion of the Mortgaged Property, of any claim, civil, criminal or administrative, which: (a) arises out of the actual, alleged or threatened discharge, dispersal, release, storage, treatment, generation, disposal or escape of any Regulated Chemical, including, but not limited to, any solid, liquid, gaseous or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, medical waste and waste (including materials to be recycled, reconditioned or reclaimed); (b) actually or allegedly arises out of the use of any Regulated Chemical, the existence or failure to detect the existence or proportion of any Regulated Chemical in the soil, air, surface water or groundwater, or the performance or failure to perform the abatement or removal of any Regulated Chemical or of any soil, water, surface water or groundwater containing any Regulated Chemical; (c) arises out of the actual or alleged existence of any Regulated Chemical on, in, under, or affecting all or a portion of the Mortgaged Property; (d) arises out of any misrepresentations of a Member concerning any matter involving Regulated Chemicals or Environmental Requirements; (e) arises out of a Member's failure to provide all information, make all submissions and filings, and take all steps required by appropriate government authority under any applicable environmental law, regulation, statute or program, whether federal, state or local, whether currently existing or hereinafter enacted; or (f) arises out of a Member's violation of any Environmental Requirement.

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(b) Without prejudice to the survival of any other agreements of the Members hereunder, this indemnification shall survive any termination, payment, or satisfaction of the Obligations and the termination of this Master Indenture, any foreclosure or any other transfer of any kind of the Mortgaged Property, and the resignation or removal of the Master Trustee under this Master Indenture for any reason and shall continue and survive ad infinitum.

(c) The Members' indemnification contained herein shall be effective not only with any existing Environmental Requirements affecting the Members, Indemnified Parties and/or the Mortgaged Property, but also for any hereinafter enacted environmental law, regulation, statute or program, whether federal, state or local affecting the Members, Indemnified Parties and/or the Mortgaged Property.

(d) The Members' indemnification contained herein shall also extend to any and all like claims which arise from the acts or omissions of the Charter School and any user, tenant, lessee, agent or invitee of a Member.

(e) The obligations under this Section shall not be affected by any investigation by or on behalf of Indemnified Parties, or by any information which Indemnified Parties may have or obtain with respect thereto.

(f) The Members indemnification shall include the duty to defend any and all claims, and Indemnified Parties may participate in the defense of any claim without relieving a Member of any obligation hereunder. This duty to defend shall apply and constitute an obligation of the Obligated Group regardless of any challenge by a Member to this provision, the indemnification contained herein, or any other provision of this Master Indenture. This duty to defend shall apply regardless of the validity of Obligated Group's indemnification, as may ultimately be determined by a court of competent jurisdiction.

(g) Notwithstanding anything to the contrary contained in this Section, no indemnification shall be required for any Environmental Damage incurred solely as the result of the gross negligence or willful misconduct of the party seeking indemnification.

ARTICLE VIII

REMEDIES OF THE MASTER TRUSTEE AND NOTEHOLDERS IN EVENT OF DEFAULT

Section 8.1. **Events of Default.**

(a) "Event of Default", as used herein, means any of the following events (including the expiration of any specified time), whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body:

(i) if the Obligated Group shall fail to make any deposit into the Revenue Fund prior to the date on which any payment from the Revenue Fund is required in respect of any Obligation; or

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(b) Upon the occurrence of an Event of Default, then and in each and every such case, the Master Trustee may and, if requested in writing by the Holders of not less than 25% in aggregate principal amount of all Obligations then Outstanding, the Master Trustee shall, by notice in writing to the Obligated Group Representative declare the principal of all (but not less than all) Outstanding Obligations to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Master Indenture or in such Outstanding Obligations contained to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of all Outstanding Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided: (i) the Obligated Group shall deposit with the Master Trustee a sum sufficient to pay (A) all matured installments of interest upon all Notes and the principal and premium, if any, of all such Notes that shall have become due otherwise than by acceleration (with interest on overdue installments of interest at the rates specified in the Related Financing Documents, or otherwise to the extent permitted by law and on such principal and premium, if any, at the respective rates borne by such Notes to the date of such deposit) and any other amounts required to be paid pursuant to such Notes, (B) all amounts due on any such Guaranty, Hedging Obligation or Ancillary Obligation other than by reason of acceleration and (C) the expenses and fees of the Master Trustee; and (ii) any and all Events of Default under this Master Indenture, other than the nonpayment of principal of and accrued interest on Outstanding Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case, the Master Trustee may and, if requested by the Holders of a majority in aggregate principal amount of all Obligations then Outstanding, shall waive all Events of Default and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or affect any subsequent Event of Default.

Section 8.2. **Payment of Obligations on Default.** Upon the occurrence of an Event of Default as described in Section 8.1 hereof and upon demand of the Master Trustee, the Obligated Group will pay to the Master Trustee, for the benefit of the Holders of all Obligations then Outstanding, (a) the whole amount that then shall have become due and payable on all such Obligations for principal or interest, or both, and such other amounts as may be required to be paid on all such Obligations, with interest upon the overdue principal and installments of interest (to the extent permitted by law) at the respective rates of interest borne by such Obligations or as provided in the applicable Supplemental Indenture, and (b) such further amount as shall be sufficient to cover the costs and expenses of collection, including a reasonable compensation to the Master Trustee, its agents, attorneys and counsel, and any expenses incurred by the Master Trustee other than as a result of its negligence or bad faith.

Section 8.3. **Suit for Moneys Due.** In case the Obligated Group shall fail forthwith to pay the amounts due under Section 8.2 hereof upon such demand, the Master Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceedings to judgment or final decree, and may enforce any such judgment or final decree against a Member, and collect in the manner provided by law out of the Pledged Revenues and the Mortgaged Property the moneys adjudged or decreed to be payable. The Master Trustee, upon the bringing of any action or proceeding at law or in equity under this Section 8.3, as a matter of right, without notice and without giving bond to the Obligated Group, may, to the

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(ii) if any Member shall fail to observe or perform any covenant or agreement contained in this Master Indenture or any Related Financing Documents (including the expiration of any specified time) for any Obligations for a period of 30 days after written notice of such failure, requiring the same to be remedied, shall have been given by the Master Trustee to the Obligated Group Representative, the giving of which notice shall be at the discretion of the Master Trustee unless the Master Trustee is requested in writing to do so by the Holders of at least 25% in aggregate principal amount of all Outstanding Obligations, in which event such notice shall be given; provided, however, that if such observance or performance requires work to be done, actions to be taken, or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied within such 30-day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, the Member shall commence such observance or performance within such 30-day period and shall diligently and continuously prosecute the same to completion; or

(iii) if any Member defaults in the payment of any Indebtedness (other than Obligations issued and Outstanding hereunder), whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any Related Financing Documents under which any such Indebtedness may be issued, secured or evidenced shall occur (including the expiration of any specified time), which default in payment or event of default shall result in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; provided, however, that such default shall not constitute an Event of Default if within the time allowed for service of a responsive pleading in any proceeding to enforce payment of the indebtedness under the laws governing such proceeding (A) the Member in good faith commence proceedings to contest the existence or payment of such indebtedness, and (B) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness; or

(iv) if a decree or order by a court having jurisdiction is entered adjudging any Member as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of the Member under the United States Bankruptcy Code or any other similar applicable federal or state law, and such decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the Member or of its respective Mortgaged Property, or for the winding-up or liquidation of its affairs, is entered, and such decree or order remains in force undischarged and unstayed for a period of 90 days; or

(v) if any Member institutes proceedings to be adjudicated a voluntary bankrupt, or consents to the institution of a bankruptcy proceeding against it, or files a petition or answer or consent seeking reorganization or arrangement under the United States Bankruptcy Code or any other similar applicable federal or state law, or consents to the filing of any such petition, or consents to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its respective Mortgaged Property, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due, or corporate action is taken by the Member in furtherance of any of the aforesaid purposes.

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extent permitted by law, have a receiver appointed of all of the Mortgaged Property pending such action or proceeding, with such powers as the court making such appointment shall confer.

Section 8.4. **Proceedings in Bankruptcy.** In case there shall be pending proceedings for the bankruptcy or for the reorganization or arrangement of a Member under the United States Bankruptcy Code or any other applicable law relative to the Members, their creditors, the Pledged Revenues or the Mortgaged Property, or in case a receiver or trustee shall have been appointed for the Pledged Revenues or the Mortgaged Property, the Master Trustee, irrespective of whether the principal of Notes of any series shall then be due and payable as therein expressed or any amount in respect of any Guaranty, Hedging Obligation or Ancillary Obligation is then payable or by declaration or otherwise and irrespective of whether the Master Trustee shall have made any demand pursuant to the provisions of Section 8.2 hereof, shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal, premium, if any, interest and any other amounts owing and unpaid in respect of Obligations of all series, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Master Trustee and of the Holders of the Obligations allowed in such judicial proceedings relative to the Members, their creditors, the Pledged Revenues or the Mortgaged Property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of such Holders to make such payments to the Master Trustee, and, in the event that the Master Trustee shall consent to the making of such payments directly to such Holders, to pay to the Master Trustee any amount due it for compensation and expenses, including counsel fees incurred by it up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses and counsel fees out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, moneys, securities and other property that the Holders of the Obligations may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

Section 8.5. **Suit by Master Trustee.** All rights of action and rights to assert claims under any Obligation may be enforced by the Master Trustee without the possession of such Obligation in any trial or other proceedings instituted by the Master Trustee. In any proceedings brought by the Master Trustee (and also any proceedings involving the interpretation of any provision of this Master Indenture to which the Master Trustee shall be a party) the Master Trustee shall be held to represent all the Holders of Obligations, and it shall not be necessary to make any Holders of Obligations parties to such proceedings.

Section 8.6. **Application of Moneys Collected.** Any amounts collected by the Master Trustee pursuant to Sections 8.2, 8.3 and 8.4 hereof and all moneys on deposit in the Revenue Fund shall be applied, for the equal and ratable benefit of the Holders of Obligations in the order following, at the date or dates fixed by the Master Trustee for the distribution of such moneys, upon presentation of such Obligations, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

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(a) to the payment of costs and expenses of collection, including fees of Counsel and reasonable compensation to the Master Trustee; and

(b) if the principal of all Outstanding Notes and amounts under all Guaranties shall not have become or have not been declared due and payable:

FIRST: To the payment to the Persons entitled thereto of all installments of interest then due on any Obligations or regularly scheduled periodic payments on Hedging Obligations ratably, according to the amounts due, without any discrimination or preference;

SECOND: To the payment to the persons entitled thereto of the unpaid principal installments and any termination payments with respect to a Hedging Obligation or Qualified Derivative secured on a parity basis which shall have become due, whether at maturity or by call for redemption, and on any Obligations ratably, according to the amounts of principal installments due, without any discrimination or preference; and

THIRD: To the payment to the Persons entitled thereto of any additional amounts due and unpaid in respect of Obligations ratably (except to the extent that a Hedging Obligation secures termination payments on a subordinated basis), according to the amounts due thereon, without any discrimination or preference; and

FOURTH: To the payment then due with respect to any Subordinated Indebtedness, including any termination payments due under any Hedging Obligation or Qualified Derivative which are secured on a subordinated basis;

(c) if the principal of all Outstanding Notes and amounts under all other Obligations shall have become or have been declared due and payable, to the payment to the Persons entitled to interest, principal, regularly scheduled periodic payments and termination payments due under any Hedging Obligation (if not secured on a subordinated basis) which shall have become due and unpaid ratably, according to the amounts due thereon, without any discrimination or preference; provided that for the purpose of determining the amount of unpaid principal in respect of any such Obligation, there is to be deducted the amount, if any, which has been realized by the Holder by exercise of its rights as a secured party with respect to any liens granted with respect thereto or is on deposit in any fund established pursuant to any Related Financing Documents for such Obligation (other than amounts consisting of payments of principal, regularly scheduled periodic payments, termination payments and interest previously made and credited against the payments due under such Obligation) as of the date of payment by the Master Trustee pursuant to this subsection (b), all as certified to the Master Trustee by the Holder;

(d) to the payment of any Subordinated Indebtedness, including any termination payments due under any Hedging Obligation or Qualified Derivative which are secured on a subordinated basis; and

(e) to the payment of the remainder, if any, to the Members, their successors or assigns, or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

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Section 8.9. **Delay or Omission of Master Trustee.** No delay or omission of the Master Trustee, or of any Holder of an Obligation, to exercise any such right or power accruing upon an Event of Default, occurring and continuing as aforesaid, shall impair any such right or power, or shall be construed to be a waiver of any such Event of Default or an acquiescence therein, nor shall the action of the Master Trustee or of the Holders of Obligations in case of any Event of Default, or in case of any Event of Default and subsequent waiver of such Event of Default, affect or impair the rights of the Master Trustee or of such Holders in respect of any subsequent Event of Default or impair any right resulting therefrom; and every power and remedy given by this Master Indenture to the Master Trustee or to such Holders may be exercised from time to time and as often as may be deemed expedient by it or by them.

Section 8.10. **Remedies Cumulative.** No remedy herein conferred upon or reserved to the Master Trustee or the Holders of Obligations entitled to the benefits hereof is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute; and the employment of any remedy hereunder, or otherwise, shall not prevent the concurrent employment of any other appropriate remedy or remedies. In the pursuit of any such remedies the Master Trustee shall have and be vested with the rights of a secured creditor under the Pennsylvania Uniform Commercial Code (or similar laws of other jurisdictions as applicable) with respect to the Pledged Revenues and to the Revenue Fund, and shall have the power to foreclose any lien which may be granted to it as Master Trustee pursuant to Article IV hereof, all to the extent permitted by law.

Section 8.11. **Notice of Default.** The Master Trustee shall, within 10 days after the occurrence of an Event of Default, mail to all Holders of Obligations, as the names and addresses of such Holders appear upon the books maintained pursuant to Articles II and III hereof, notice of such Event of Default of which the Master Trustee has actual knowledge, unless such Event of Default shall have been cured before the giving of such notice; provided that, except in the case of default in the payment of the principal or of premium, if any, or interest on or other amounts payable under any of the Notes or Guaranties and the Events of Default specified in subsections (a)(iv) and (a)(v) of Section 8.1 hereof, the Master Trustee shall be protected in withholding such notice if and so long as the Master Trustee in good faith determines that the withholding of such notice is in the interest of the Holders of the Obligations. The Master Trustee shall not be deemed to have notice or knowledge of any Event of Default unless it has actual knowledge of such Event of Default or it has been notified in writing of such Event of Default by the Holders of Obligations equal in the aggregate to at least 25% in principal amount of all Obligations.

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Section 8.7. **Actions by Holders.**

(a) No Holder of an Obligation shall have any right by virtue of or by availing of any provision of this Master Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Master Indenture or for the appointment of a receiver or trustee, or any other remedy hereunder, unless the Holders of not less than 25% in aggregate principal amount of Obligations then Outstanding shall have made written request upon the Master Trustee to institute such action, suit or proceeding in its own name as Master Trustee hereunder and shall have offered to the Master Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Master Trustee, for 30 days after its request of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding and no direction inconsistent with such written request shall have been given to the Master Trustee pursuant to Section 8.8 hereof; it being understood and intended, and being expressly covenanted by the Holder of an Obligation and the Master Trustee, that no one or more Holders of Obligations shall have any right in any manner whatever by virtue of or by availing of any provision of this Master Indenture to affect, disturb or prejudice the rights of any other Holder of an Obligation or to obtain or seek to obtain priority over or preference to any other such Holder, or to enforce any right under this Master Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all Holders of Obligations. For the protection and enforcement of the provisions of this Section 8.7, each and every Holder of an Obligation and the Master Trustee shall be entitled to such relief as can be given either at law or in equity.

(b) The Holder of an Obligation instituting a suit, action or proceeding in compliance with the provisions of this Section 8.7 shall be entitled in such suit, action or proceeding to such amounts as shall be sufficient to cover the costs and expenses of collection, including to the extent permitted by applicable law, a reasonable compensation to its attorneys.

(c) Notwithstanding any other provision of this Master Indenture the right of a Holder of an Obligation to receive payment of the principal of and interest on any Note or Guaranty and any other amounts payable thereunder, on or after the respective due dates expressed in such Note or Guaranty, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

Section 8.8. **Direction of Proceedings by Holders.** The Holders of a majority in aggregate principal amount of Obligations then Outstanding shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred on the Master Trustee; provided, however, that, subject to Section 9.2 hereof, the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee, being advised by Counsel, determines that the action so directed may not lawfully be taken, or if the Master Trustee in good faith shall, by a responsible officer or officers of the Master Trustee, determine that the proceedings so directed would be illegal or involve it in personal liability, and provided further that nothing in this Master Indenture shall impair the right of the Master Trustee in its discretion to take any action deemed proper by the Master Trustee and which is not inconsistent with such direction by the Holders.

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ARTICLE IX

CONCERNING THE MASTER TRUSTEE

Section 9.1. **Duties and Liabilities of Master Trustee.**

(a) The Master Trustee, prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Master Indenture. In case such an Event of Default has occurred (which has not been cured or waived) the Master Trustee shall exercise such of the rights and powers vested in it by this Master Indenture.

(b) No provision of this Master Indenture shall be construed to relieve the Master Trustee from liability for its own grossly negligent action, its own grossly negligent failure to act, or its own willful misconduct; provided, however, that:

(i) the Master Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or officers of the Master Trustee, unless it shall be proved that the Master Trustee was grossly negligent in ascertaining the pertinent facts; and

(ii) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in aggregate principal amount of Obligations then Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under this Master Indenture.

(c) None of the provisions contained in this Master Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if there is reasonable ground for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured of it.

Section 9.2. **Reliance on Documents, Indemnification, Etc.** Except as otherwise provided in Section 9.1 hereof:

(a) The Master Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate (including any Architect's Certificate or report), statement, instrument, opinion (including an opinion of a Consultant or Counsel), report, notice, request, consent, order, approval, note, bond, debenture or other paper or document (including any statement by or on behalf of any Holder relating to the amount of principal outstanding or interest due on any Obligation) believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Any request, direction, order or demand of the Obligated Group Representative mentioned herein shall be sufficiently evidenced by an Officer's Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any resolution of the Board of the

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Obligated Group Representative may be evidenced to the Master Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Obligated Group Representative.

(c) The Master Trustee may consult with Counsel and the advice of such Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such advice.

(d) Prior to the occurrence of an Event of Default hereunder and after the curing of all Events of Default, the Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, note, bond, debenture, or other paper or document, unless requested in writing to do so by the Holders of a majority in aggregate principal amount of Obligations then Outstanding; provided, however, that if the payment within a reasonable time to the Master Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Master Trustee, not reasonably assured to the Master Trustee by the security afforded to it by the terms of this Master Indenture, the Master Trustee may require indemnity, reasonably satisfactory to the Master Trustee, with respect to such additional compensation as the Master Trustee may require for complying with such request and against such costs, expenses (including, without limitation, fees of Counsel) or liabilities as a condition to so proceeding. The reasonable expense of every such examination shall be paid by the Obligated Group or, if paid by the Master Trustee, shall be repaid by the Obligated Group upon demand.

(e) The Master Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys.

(f) The Master Trustee shall be under no responsibility for the approval by it in good faith of any expert or other skilled person for any of the purposes expressed in this Master Indenture.

(g) The Master Trustee shall have no duty to review or analyze any financial statements or other information filed with the Master Trustee by any party. The Master Trustee shall not be deemed to have notice of any information contained therein or event of default which may be disclosed in any manner therein.

(h) The Master Trustee shall have the right to accept and act upon instructions or directions pursuant to this Master Indenture and any other Related Financing Documents sent in the form of a manually signed document by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that the Members shall provide to the Master Trustee an incumbency certificate listing designated persons with the authority to provide such instructions and containing specimen signatures of such designated persons, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. The Master Trustee may accept documents signed by way of a digital signature from a provider of digital signature services specified in writing by the Obligated Group Representative to the Master Trustee, including initially, DocuSign. If the Members elect to give the Master Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Master Trustee in its discretion elects to act upon such instructions, the Master Trustee's understanding of such instructions shall be deemed controlling. The Master Trustee shall not be

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matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Master Trustee, be deemed to be conclusively proved and established by an Officer's Certificate delivered to the Master Trustee, and such Certificate, in the absence of negligence or bad faith on the part of the Master Trustee, shall be full warrant to the Master Trustee for any action taken, suffered or omitted by it under the provisions of this Master Indenture upon the faith thereof.

Section 9.7. **Resignation, Removal and Successor Master Trustee.** The Master Trustee may resign at any time without cause by giving at least 30 days' prior written notice to the Obligated Group Representative and by publishing notice of such resignation in such newspapers as may be specified in any Supplemental Indentures and by mailing notice of such resignation to each Holder of an Obligation then Outstanding, as the names and addresses of such Holders appear on the register maintained pursuant to Articles II and IV hereof, such resignation to be effective upon the acceptance of such Master Trusteeship by a successor. The Master Trustee may be removed without cause by the Obligated Group, provided that at the time of such removal, no Event of Default has occurred and is continuing hereunder. In addition, the Master Trustee may be removed without cause at the direction of the Holders of not less than 50% in aggregate principal amount of Obligations then Outstanding, delivered to the Obligated Group Representative and the Master Trustee. The Master Trustee shall promptly give notice of any such removal in writing to each Holder of an Obligation then Outstanding as provided above. In the case of the resignation of the Master Trustee or removal by the Obligated Group, a successor Master Trustee shall be appointed by the Obligated Group Representative. In the case of the removal of the Master Trustee at the direction of the Holders of not less than 50% in aggregate principal amount of Obligations then Outstanding, such successor may be appointed at the direction of the Holders of not less than 50% in aggregate principal amount of Obligations then Outstanding. If a successor Master Trustee shall not have been appointed within 30 days after such notice of resignation or removal, the Master Trustee, the Obligated Group 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.

Section 9.8. **Acceptance by Successor Master Trustee.** Any successor Master Trustee, however appointed, shall execute and deliver to its predecessor and to the Obligated Group Representative an instrument accepting such appointment, and thereupon such successor, without further act, shall become vested with all the estates, properties, rights, powers and duties of its predecessor hereunder in the trusts under this Master Indenture applicable to it with like effect as if originally named the Master Trustee; but, nevertheless, upon the written request of such successor Master Trustee, its predecessor shall execute and deliver an instrument transferring to such successor Master Trustee, upon the trusts herein expressed applicable to it, the Pledged Revenues, the Mortgaged Property, all the estates, rights and powers of such predecessor under this Master Indenture, and such predecessor shall duly assign, transfer, deliver and pay over to such successor Master Trustee all moneys, Pledged Revenues, the Mortgaged Property or other property then held by such predecessor under this Master Indenture.

Section 9.9. **Qualifications of Successor Master Trustee.** Any successor Master Trustee, however appointed, shall be a commercial bank or trust company having a combined net

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liable for any losses, costs or expenses arising directly or indirectly from the Master Trustee's reliance upon and compliance with such instructions notwithstanding that such instructions conflict or are inconsistent with a subsequent written instruction. The Members agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Master Trustee, including, without limitation, the risk of the Master Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

Section 9.3. **Responsibility for Recitals, Validity of Indenture; Proceeds of Notes.** The recitals contained in this Master Indenture and in the Notes and Guaranties (other than the certificate of authentication on such Notes and Guaranties) are to be taken as the statements of the Members and the Master Trustee assumes no responsibility for the correctness of the same. The Master Trustee makes no representations as to the validity or sufficiency of this Master Indenture or the liens or security created hereby or of the Notes and Guaranties. The Master Trustee shall not be accountable for the use or application by the Members of any of the Notes or Guaranties or of the proceeds of such Notes or Guaranties, or for the use or application of any moneys paid over by the Master Trustee in accordance with any provision of this Master Indenture, or for use or application of any moneys received by any paying agent other than the Master Trustee.

Section 9.4. **Master Trustee May Own Notes.** The Master Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes with the same rights it would have if it were not Master Trustee hereunder. Any provision to the contrary herein notwithstanding, no provision of this Master Indenture shall prohibit the Master Trustee from serving as trustee under any Related Financing Documents or from maintaining a banking relationship with the Members.

Section 9.5. **Compensation and Expenses of Master Trustee.** The Obligated Group shall pay to the Master Trustee from time to time, and the Master Trustee shall be entitled to, such reasonable compensation as has been agreed to by both parties, and the Obligated Group shall pay or reimburse the Master Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Master Trustee in connection with the acceptance or administration of its trusts under this Master Indenture (including the reasonable compensation and the expenses and disbursement of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Members shall indemnify the Master Trustee for, and shall hold it harmless against, any loss, liability or expense incurred without gross negligence or bad faith on the part of the Master Trustee and arising out of or in connection with the acceptance or administration of such trusts, including the costs and expenses (including, without limitation, a reasonable compensation to its attorneys) of defending itself against any claim of liability in the premises. The respective obligations of the Members under this Section 9.5 to compensate the Master Trustee, to pay or reimburse the Master Trustee for expenses, disbursements and advances and to indemnify and hold harmless the Master Trustee shall survive the satisfaction and discharge of this Master Indenture. The obligations of the Members under this Section shall be a senior claim and lien to that of the holders of the Obligations upon all property held or collected by the Master Trustee, as such.

Section 9.6. **Officer's Certificate as Evidence.** Except as otherwise provided in Section 9.1 hereof, whenever in the administration of the provisions of this Master Indenture the Master Trustee shall deem it necessary or desirable (or if this Master Indenture shall require) that a matter be proved or established prior to taking, suffering or omitting any action hereunder, such

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capital and surplus of, or shall be an affiliate of such institutions having combined capital and surplus of, at least \$25,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Master Trustee hereunder upon reasonable or customary terms.

Section 9.10. **Successor by Merger.** Any corporation or other entity into which the Master 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 Master Trustee shall be a party, or any corporation to which substantially all the trust business of the Master Trustee may be transferred, shall, subject to the terms of Section 9.9 hereof, be the Master Trustee under this Master Indenture without further act.

Section 9.11. **Co-Master Trustees.** At any time, for the purpose of meeting the legal requirements of any applicable jurisdiction, the Master Trustee shall have power to appoint one or more Persons not unsatisfactory to the Obligated Group Representative to act as Co-Master Trustee under this Master Indenture, with such powers as may be provided in the instrument of appointment, and to vest in such person or persons any property, title, right or power deemed necessary or desirable, subject to the provisions of this Section 9.11.

(a) Each Co-Master Trustee shall, to the extent permitted by applicable law, be appointed subject to the following terms:

(i) The rights, powers, duties and obligations conferred or imposed upon any such Co-Master Trustee shall not be greater than those conferred or imposed upon the Master Trustee, and such rights and powers shall be exercisable only jointly with the Master Trustee, except to the extent that, under the law of any jurisdiction in which any particular act or acts are to be performed, the Master Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights and powers shall be exercised by such Co-Master Trustee subject to the provisions of subsection (b)(iv) of this Section 9.11.

(ii) The Master Trustee may at any time, by an instrument in writing executed by it, accept the resignation of or remove any Co-Master Trustee appointed under this Section 9.11.

(iii) No Co-Master Trustee under this Master Indenture shall be liable by reason of any act or omission of the Master Trustee or any other Co-Master Trustee appointed under this Master Indenture.

(iv) No power given to such Co-Master Trustee shall be separately exercised hereunder by such Co-Master Trustee except with the consent in writing of the Master Trustee, anything herein contained to the contrary notwithstanding.

Section 9.12. **Force Majeure.** In no event shall the Master Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder or under any other documents relating to the Obligations arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and

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hardware) services; it being understood that the Master Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

Section 9.13. **Consequential Damages.** Anything in this Master Indenture or the other documents relating to the Obligations notwithstanding, in no event shall the Master Trustee be liable for special, indirect, exemplary, incidental, punitive or consequential or other similar loss or damage of any kind whatsoever (including but not limited to loss of profit), even if the Master Trustee has been advised as to the likelihood or possibility of such loss or damage and regardless of the form of action.

ARTICLE X

SUPPLEMENTS AND AMENDMENTS

Section 10.1. **Supplemental Indentures without Consent of Noteholders.**

(a) The Obligated Group Representative, acting for itself and as agent for each Member, when authorized by a resolution of its Board, and the Master Trustee may from time to time and at any time enter into an indenture or indentures supplemental or amendatory hereto for one or more of the following purposes:

- (i) to provide for the issuance of any Obligations hereunder;
- (ii) to evidence the succession of another corporation to a Member, or successive successions, and the assumption by the successor corporation of the covenants, agreements and obligations of such Member pursuant to this Master Indenture;
- (iii) to add to the covenants of the Obligated Group such further covenants, restrictions or conditions as its Board and the Master Trustee shall consider to be for the protection of the Holders of Obligations issued hereunder, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions an Event of Default permitting the enforcement of all or any of the several remedies provided in this Master Indenture as herein set forth; provided, however, that in respect of any such additional covenant, restriction or condition such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Master Trustee upon such default;
- (iv) to cure any ambiguity or to correct or supplement any provision contained herein
- (v) or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Master Indenture or any supplemental indenture as shall not impair the security of this Master Indenture or

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Indenture, permit the preference or priority of any Obligation or Obligations over any other Obligation or Obligations.

(a) Upon the request of the Obligated Group Representative, accompanied by a copy of a resolution of its Board certified by the Secretary or an Assistant Secretary of the Obligated Group Representative authorizing the execution of any such supplemental indenture, and upon the filing with the Master Trustee of evidence satisfactory to the Master Trustee of the consent of Holders as aforesaid, the Master Trustee shall join with the Obligated Group Representative in the execution of such Supplemental Indenture unless such Supplemental Indenture affects the Master Trustee's own rights, duties or immunities under this Master Indenture or otherwise, in which case the Master Trustee may in its discretion, but shall not be obligated, to enter into such Supplemental Indenture.

(b) It shall not be necessary for the consent of the Holders under this Section 10.2 to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Section 10.3. **Effect of Supplemental Indenture.**

(a) Upon the execution of any Supplemental Indenture pursuant to the provisions of this Article X, this Master Indenture shall, with respect to each series of Notes and each Guaranty issued hereunder, be and be deemed to be modified and amended in accordance therewith and the respective rights, limitation of rights, obligations, duties and immunities under this Master Indenture of the Master Trustee, the Obligated Group and the Holders of Obligations issued hereunder shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Master Indenture.

(b) The Master Trustee, subject to the provisions of Sections 10.1 and 10.2 hereof, may receive and rely on an opinion of Counsel as conclusive evidence that any such supplemental indenture complies with the provisions of this Article X.

Section 10.4. **Obligations May Bear Notation of Changes.**

Obligations authenticated and delivered after the execution of any Supplemental Indenture pursuant to the provisions of this Article X may bear a notation in form approved by the Master Trustee as to any matter provided for in such Supplemental Indenture. If the Obligated Group Representative or the Master Trustee shall so determine, new Obligations so modified as to conform, in the opinion of the Master Trustee and the Board of the Obligated Group Representative, to any modification of this Master Indenture contained in any such Supplemental Indenture may be executed by the Obligated Group Representative, authenticated by the Master Trustee and delivered in exchange for Obligations of the same series then Outstanding.

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adversely affect the interests of the Holders of any particular Notes or series of Notes or of any Guaranty issued hereunder;

(vi) to modify or supplement this Master Indenture in such manner as may be necessary or appropriate to qualify this Master Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal statute hereafter enacted, including provisions whereby the Master Trustee accepts such powers, duties, conditions and restrictions hereunder and the Obligated Group, undertakes such covenants, conditions or restrictions additional to those contained in this Master Indenture as would be necessary or appropriate so to qualify this Master Indenture;

(vii) to provide for the establishment of additional funds and accounts hereunder and for the proper administration of and transfers of moneys between any such funds and accounts, provided that, except as otherwise provided in Section 6.2 and Article XI hereof, all such funds and accounts shall be established for the equal and ratable benefit of the Holders of all Outstanding Obligations; or

(viii) To obligate a successor to any Member as provided in Section 7.10 hereof;

(b) The Master Trustee is hereby authorized to join with the Obligated Group Representative in the execution of any such Supplemental Indenture, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer, mortgage, pledge or assignment of any Property thereunder, but the Master Trustee shall not be obligated to enter into any such Supplemental Indenture that affects the Master Trustee's rights, duties or immunities under this Master Indenture or otherwise.

(c) Any Supplemental Indenture authorized by the provisions of this Section 10.1 may, without the consent of the Holders of then Outstanding Obligations issued hereunder, be executed by the Obligated Group Representative and the Master Trustee.

Section 10.2. **Modification of Indenture with Consent of Holders.**

(a) With the consent of the Holders of not less than 51% in aggregate principal amount of Obligations then Outstanding, the Obligated Group Representative, acting for itself and as agent for each Member, when authorized by resolution of its Board, and the Master Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Master Indenture or of any Supplemental Indenture or of modifying in any manner the rights of the Holders of Obligations; provided, however, that without the consent of the Holders of not less than 75% in aggregate principal amount of all affected Obligations then Outstanding, no such Supplemental Indenture may effect a change in the times, amounts or currency of payment of the principal of, premium, if any, or interest on any Note or any Guaranty or a reduction in the principal amount or redemption price of any Note or the rate of interest thereon; and provided, further, that without the consent of the Holders of all Obligations then Outstanding, no such Supplemental Indenture may (i) reduce the aforesaid percentage of Obligations, the Holders of which are required to consent to any such supplemental indenture, or (ii) except as otherwise permitted by this Master

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ARTICLE XI

SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS

Section 11.1. **Satisfaction and Discharge of Indenture.**

If the Master Trustee receives: (a) an amount which is (i) in the form of (A) cash, (B) Government Obligations, or (C) obligations described in subparagraph (b) of the definition of Investment Securities, and (ii) in a principal amount sufficient, together with the interest thereon and any funds on deposit hereunder and available for such purpose, to provide for the payment of the principal of and premium, if any, and interest on all Outstanding Obligations to and including the maturity date or prior redemption or prepayment date thereof; (b) irrevocable instructions to redeem all Obligations to be redeemed prior to maturity and to notify the Holders of each such redemption; and (c) an amount sufficient to pay or provide for the payment of all other sums payable hereunder by the Obligated Group or any thereof, then this Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Obligated Group or any thereof, and at the cost and expense of the Obligated Group or any thereof, shall execute all such instruments acknowledging satisfaction of and discharging this Master Indenture as may be requested by the Obligated Group Representative. The Obligated Group hereby agrees to reimburse the Master Trustee for any costs or expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with this Master Indenture.

In like manner, the Members may provide for the payment thereof (or of a portion thereof) at or prior to maturity and the Obligation (or portion thereof) so provided for shall thereupon cease to be Outstanding hereunder.

In lieu of the foregoing, the Members may deliver to the Holder thereof the amount required under the Related Financing Documents to provide for the payment of the principal, premium, if any, and interest due or to become due in respect of such Obligation and such Obligation shall, upon surrender to the Master Trustee for cancellation, no longer be deemed Outstanding hereunder.

Section 11.2. **Application of Funds Deposited for Payment of Obligations.** All moneys deposited with the Master Trustee pursuant to Section 12.1 or 12.2 hereof shall be held in trust and applied by it to the payment to the Holders of the Notes and Guaranties for the payment or redemption of which such moneys have been deposited with the Master Trustee, of all sums due and to become due thereon for principal and interest and any other amounts.

Section 11.3. **Repayment of Moneys Held by Master Trustee.** Any moneys deposited with the Master Trustee for the payment of the principal of or interest on Notes or Guaranties and not applied but remaining unclaimed by the Holders of such Obligations for four (4) years after the date upon which such payment shall have become due, shall, to the extent permitted by applicable law, be repaid to the Obligated Group by the Master Trustee on demand; and, upon such repayment, the Holder of any of such Obligations entitled to receive such payment shall look only to the Obligated Group for the payment thereof; provided that, before being required to make any such repayment, the Master Trustee may notify the Holders of such unpaid Obligations that said moneys have not been so applied and that after a date named therein any unclaimed balance of said moneys then remaining will be returned to the Obligated Group or any successor thereof. Any

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such notice shall be given in such manner as may be specified in the applicable Supplemental Indenture and the cost thereof shall be paid by the Obligated Group.

ARTICLE XII

IMMUNITY OF INCORPORATORS, MEMBERS, OFFICERS AND MEMBERS OF BOARD

Section 12.1. **Incorporators, Members, Officers and Members of the Board Exempt from Individual Liability.** No recourse under or upon any obligation, covenant or agreement of this Master Indenture, or of any Notes or Guaranties issued hereunder, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, member, officer or member of the Board, as such, past, present or future, of any Member or of any successor corporation, either directly or through a Member, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Master Indenture and the Obligations issued hereunder are solely corporate obligations, and that no personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, members, officers or members of the Board, as such, of a Member or any successor corporation, or any of them, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Master Indenture or in any Obligations issued hereunder or implied therefrom; and that any and all such personal liability of every name and nature, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, member, officer or trustee, as such, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Master Indenture or in any Obligations issued hereunder or implied therefrom are hereby expressly waived and released as a condition of, and as consideration for, the execution of this Master Indenture and the issuance of such Obligations.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

Section 13.1. **Successors and Assigns of Members Bound by Indenture.** All the covenants, stipulations, promises and agreements in this Master Indenture contained by or on behalf of the Obligated Group or the Master Trustee will inure to the benefit of and will bind their respective successors and assigns, whether so expressed or not.

Section 13.2. **Official Acts by Successor Corporation.** Any act or proceeding by any provision of this Master Indenture authorized or required to be done or performed by any board, committee or officer of a Member shall and may be done and performed with like force and effect by the like board, committee or officer of any corporation that shall at the time be the lawful sole successor of such Member.

Section 13.3. **Notice or Demand Served by Mail.** With respect to each series of Notes, and with respect to each Guaranty, unless otherwise expressly specified or permitted by the terms of this Master Indenture or the applicable Supplemental Indenture, all notices shall be in writing,

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shall be extended for a reasonable period, in no event to exceed a period equivalent to the period of such delay.

mailed by registered or certified United States mail, and (i) if to the Obligated Group Representative, addressed to it in care of DeMedici Corporation, c/o Philadelphia Performing Arts: A String Theory Charter School, 2600 South Broad Street, Philadelphia, PA 19145, (ii) if to the Master Trustee, addressed to it at U.S. Bank National Association, Attn: Corporate Trust Services, Two Liberty Place, 50 S. 16th Street, Suite 2000, Philadelphia, PA 19102, and (iii) if to any Holder of any Obligation identified in the registration books kept pursuant to Articles Two and Three hereof, addressed to such Holder at the address set forth in such registration books; or to such other address as the Obligated Group Representative or the Master Trustee shall from time to time designate by in writing. If required to be given by a Member or the Master Trustee of any Holder to any of the other of them, such notice shall be deemed given and such requirement satisfied if such notice is mailed by registered or certified United States mail. Notices given under this Section 14.3 shall be effective upon receipt or refusal of delivery thereof.

Section 13.4. **Governing Law.** This Master Indenture, any Supplemental Indenture and the Obligations issued hereunder will be deemed to be contracts made under the laws of the Commonwealth of Pennsylvania and for all purposes shall be construed in accordance with the laws of such state.

Section 13.5. **Legal Holidays.** Except to the extent any Supplemental Indenture or Obligation provides otherwise, in any case where the date on which any principal, premium, interest or other payment is required to be paid shall be on a day on which banking institutions at the place of payment are authorized by law to remain closed, then payment of such amounts need not be made on such date but may be made on the next succeeding day which is not a day on which banking institutions at such place of payment are authorized by law to remain closed, with the same force and effect as if made on the date otherwise due and, in the case of such payment, no interest shall accrue for the period from and after such date.

Section 13.6. **Benefits of Provisions of Indenture and Obligations.** Nothing in this Master Indenture or in the Obligations issued hereunder, expressed or implied, shall give or be construed to give any person, firm or corporation, other than the Members, the Master Trustee, any indemnified parties and the Holders of Obligations, any legal or equitable right, remedy or claim under or in respect of this Master Indenture, or under any covenant, condition and provision herein contained; all its covenants, conditions and provisions being for the sole benefit of the Obligated Group, the Master Trustee and of the Holders of such Obligations.

Section 13.7. **Execution in Counterparts.** This Master Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

Section 13.8. **Effective Date.** This Master Indenture shall become effective as of the day and year first written above upon execution hereof by the Members and the Master Trustee.

Section 13.9. **Force Majeure.** If the Members shall be delayed, hindered in or prevented from the performance of any act required hereunder by reason of Force Majeure (excluding specifically the payments due on any Obligations issued hereunder), then performance of such act shall be excused for the period of the delay and the period for the performance of any such act

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IN WITNESS WHEREOF, the parties hereto have caused this Master Trust Indenture to be duly executed by persons thereunto duly authorized, as of the day and year first written above.

DEMEDICI CORPORATION

By: _____
President of the Board of Trustees

DEMEDICI CORPORATION II

By: _____
President of the Board of Trustees

U.S. BANK NATIONAL ASSOCIATION,
as Master Trustee

By: _____
Vice President

(Signature page to Master Trust Indenture)

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EXHIBIT A

The following requirements shall apply to all certificates of deposit issued by parties other than a Qualified Financial Institution and all investment agreements and repurchase agreements entered into with parties other than a Qualified Financial Institution.

The aggregate market value of the collateral for a certificate of deposit, investment agreement or repurchase agreement, as of each valuation date shall be at least equal to the applicable amount set forth in Table I below. However, the required collateral levels for Table I may be increased or decreased in accordance with rating guidelines promulgated by S&P or Moody's.

The "Maximum Cure Period" shown in the table below is the period of time following each valuation date within which deficiencies in the market value of the collateral must be cured.

TABLE I Required Collateral Values (1)			
Frequency of Valuation	Maximum Cure Period	Term of Maturity of Collateral	
		1 year or less	More than one year
Monthly	2 Business Days	105%	110%
Weekly	2 Business Days	103%	105%
Daily	1 Business Day	100%	100%

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(1) Market value of the collateral expressed as a percentage of principal and accrued and unpaid interest based on the amount invested pursuant to a certificate of deposit or investment agreement or the repurchase price under each repurchase agreement, as the case may be, determined as of each valuation date.

SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1

SUPPLEMENTAL MASTER TRUST INDENTURE NO. 1 dated as of December 1, 2020 (this “**Supplemental Master Indenture No. 1**”), between DEMEDICI CORPORATION (the “**Obligated Group Representative**”), a nonprofit corporation duly organized and validly existing under the laws of the Commonwealth of Pennsylvania, on behalf of itself as a Member of the Obligated Group and as Obligated Group Representative for the other Members of the Obligated Group described in the Master Indenture defined below and any future Members from time to time of the Obligated Group, and U.S. BANK NATIONAL ASSOCIATION, as master trustee (the “**Master Trustee**”) under the Master Trust Indenture dated as of December 1, 2020 (the “**Original Master Indenture**”) and, together with this Supplemental Master Indenture No. 1, the “**Master Indenture**”), among the Obligated Group Representative, DeMedici Corporation II (together, with the Obligated Group Representative, the “**Obligated Group**” and each a “**Member**”) and the Master Trustee.

WHEREAS, the Obligated Group desires to issue a Note (as defined in the Master Indenture) under the provisions of the Master Indenture to evidence certain obligations of the Obligated Group arising in connection with the Loan Agreement dated as of December 1, 2020 (the “**Loan Agreement**”), between the Obligated Group, as borrowers, and the Philadelphia Authority for Industrial Development (the “**Authority**”), pursuant to which the Authority loaned to the Obligated Group the proceeds of the Authority’s Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project), Series 2020 (the “**2020 Bonds**”). The 2020 Bonds were issued pursuant to an Indenture of Trust dated as of December 1, 2020 (the “**Bond Indenture**”) between the Authority and U.S. Bank National Association, as trustee (the “**2020 Bond Trustee**”).

NOW, THEREFORE, intending to be legally bound, the Corporation covenants agrees with the Master Trustee as follows:

SECTION 1. Purpose. This Supplemental Master Indenture No. 1 is executed and delivered for the purpose of: authorizing the 2020 Note as defined in Section 3 hereof, in accordance with the Master Indenture.

SECTION 2. Definitions. All terms which are used and not otherwise defined herein shall have the meanings set forth in the Master Indenture.

SECTION 3. Terms and Conditions of the 2020 Note. There is hereby authorized for issuance, one Note (the “**2020 Note**”) pursuant to the Master Indenture.

(a) The 2020 Note is authorized by the Master Indenture, including this Supplemental Master Indenture No. 1. The 2020 Note will (i) be issued to the Authority to evidence and secure the Obligated Group’s payment obligation under the Loan Agreement wherein the Obligated Group agrees to pay, among other things, debt service on the 2020 Bonds; (ii) be issued in the original aggregate principal amount of \$52,405,000; (iii) be dated as of the date of issuance and delivery of the 2020 Bonds, and (iv) contain such terms and provisions and will be in substantially the form attached as Exhibit A hereto.

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The 2020 Note is being issued, executed and authenticated in accordance with and will be governed by the provisions of the Master Indenture.

SECTION 4. Payments with Respect to the 2020 Note.

(a) The Obligated Group will deposit or cause to be deposited into the Revenue Fund established under the Master Indenture an amount equal to the payments due on the next succeeding payment date with respect to the 2020 Note, plus any other amounts required to be deposited in the funds created under the Bond Indenture and held by the 2020 Bond Trustee, on or before the date(s) payments are required under Section 5.02 of the Loan Agreement.

(b) The Master Trustee is hereby directed to transfer moneys held in the Revenue Fund required for payments due on the 2020 Bonds, plus any other amounts required to be deposited in the funds created under the Bond Indenture and held by the 2020 Bond Trustee, to the 2020 Bond Trustee on or before the date of such required payments. The regularly scheduled payment dates and amounts due on such payment dates with respect to principal and interest due on the 2020 Bonds are as set forth in the attached Schedule A. The Obligated Group agrees to provide written notice to the Master Trustee of the dates and amounts of any extraordinary payments due on the 2020 Bonds.

(c) Following the payment to the 2020 Bond Trustee of amounts due on the 2020 Bonds, any amounts remaining in the Revenue Fund and not needed for the payment on the 2020 Note or any other Outstanding Obligations are to be returned to Philadelphia Performing Arts: A String Theory Charter School.

SECTION 5. Electronic Communication. The Master Trustee will have the right to accept and act upon electronic communications as provided in Section 9.01(y) of the Bond Indenture.

SECTION 6. Term of Supplemental Master Indenture No. 1. This Supplemental Master Indenture No. 1 shall remain in full force and effect for so long as the 2020 Note remains Outstanding under the terms of the Master Indenture.

SECTION 7. Counterparts. This Supplemental Master Indenture No. 1 may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Master Indenture No. 1 to be duly executed by persons thereunto duly authorized, as of the day and year first written above.

DEMEDICI CORPORATION, on behalf of
itself as a Member of the Obligated Group and
as Obligated Group Representative

By: _____
President of the Board of Trustees

U.S. BANK NATIONAL ASSOCIATION,
as Master Trustee

By: _____
Vice President

(Signature page to Supplemental Master Indenture No. 1 re
Philadelphia Performing Arts: A String Theory Charter School Project)

Schedule A

Payment Date	2020 Bonds Principal	2020 Bonds Interest	Total Debt Service
6/15/2021	400,000	1,328,914.44	1,728,914.44
12/15/2021		1,292,025.00	
6/15/2022	795,000	1,292,025.00	3,379,050.00
12/15/2022		1,276,125.00	
6/15/2023	825,000	1,276,125.00	3,377,250.00
12/15/2023		1,259,625.00	
6/15/2024	860,000	1,259,625.00	3,379,250.00
12/15/2024		1,238,125.00	
6/15/2025	905,000	1,238,125.00	3,381,250.00
12/15/2025		1,215,500.00	
6/15/2026	950,000	1,215,500.00	3,381,000.00
12/15/2026		1,191,750.00	
6/15/2027	995,000	1,191,750.00	3,378,500.00
12/15/2027		1,166,875.00	
6/15/2028	1,045,000	1,166,875.00	3,378,750.00
12/15/2028		1,140,750.00	
6/15/2029	1,100,000	1,140,750.00	3,381,500.00
12/15/2029		1,113,250.00	
6/15/2030	1,155,000	1,113,250.00	3,381,500.00
12/15/2030		1,084,375.00	
6/15/2031	1,210,000	1,084,375.00	3,378,750.00
12/15/2031		1,054,125.00	
6/15/2032	1,270,000	1,054,125.00	3,378,250.00
12/15/2032		1,022,375.00	
6/15/2033	1,335,000	1,022,375.00	3,379,750.00
12/15/2033		989,000.00	
6/15/2034	1,400,000	989,000.00	3,378,000.00
12/15/2034		954,000.00	
6/15/2035	1,470,000	954,000.00	3,378,000.00
12/15/2035		917,250.00	
6/15/2036	1,545,000	917,250.00	3,379,500.00
12/15/2036		878,625.00	
6/15/2037	1,630,000	878,625.00	3,377,250.00
12/15/2037		838,125.00	
6/15/2038	1,705,000	838,125.00	3,381,250.00
12/15/2038		795,500.00	
6/15/2039	1,785,000	795,500.00	3,376,000.00
12/15/2039		750,875.00	
6/15/2040	1,875,000	750,875.00	3,376,750.00
12/15/2040		704,000.00	
6/15/2041	1,970,000	704,000.00	3,378,000.00
12/15/2041		654,750.00	
6/15/2042	2,070,000	654,750.00	3,379,500.00
12/15/2042		603,000.00	
6/15/2043	2,170,000	603,000.00	3,376,000.00
12/15/2043		548,750.00	
6/15/2044	2,280,000	548,750.00	3,377,500.00
12/15/2044		491,750.00	
6/15/2045	2,395,000	491,750.00	3,378,500.00
12/15/2045		431,875.00	
6/15/2046	2,515,000	431,875.00	3,378,750.00
12/15/2046		369,000.00	
6/15/2047	2,640,000	369,000.00	3,378,000.00
12/15/2047		303,000.00	
6/15/2048	2,770,000	303,000.00	3,376,000.00

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Exhibit A

Form of Note

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933

No. 1 \$ _____

_____, 2020

2020 NOTE

DEMEDI CI CORPORATION (the “Corporation”) and **DEMEDI CI CORPORATION** (“DMII”) as current Members of the Obligation Group, and all other organizations as may hereafter join the Obligated Group and become Members of the Obligated Group (collectively, the “Obligated Group”), for value received, hereby promises to pay to **PHILADELPHIA AUTHORITY FOR INDUSTRIAL DEVELOPMENT** (the “Authority”) the original principal sum of **FIFTY TWO MILLION FOUR HUNDRED FIVE THOUSAND DOLLARS AND NO/100 (\$52,405,000)** in installments on the dates, in the amounts and in the manner hereinafter described, subject to the provisions for redemption set forth herein, and to pay to the Authority interest thereon and certain other amounts payable hereunder, in installments on the dates, in the amounts and in the manner hereinafter described.

This Note is the duly authorized Obligation of the Obligated Group, limited to \$52,405,000 in principal amount, designated as its “2020 Note” (hereinafter the “2020 Note”), issued pursuant to the Master Trust Indenture dated as of December 1, 2020 (the “Original Master Indenture”), as supplemented by the Supplemental Master Trust Indenture No. 1 dated as of December 1, 2020 (the “Supplemental Master Indenture No. 1” and, together with the Original Master Indenture, the “Master Indenture”), each between the Obligated Group (and any other future Members of the Obligated Group referred to therein) and U.S. Bank National Association, as master trustee (the “Master Trustee”). Certain capitalized words and terms used in this 2020 Note and not defined herein shall have the respective meanings given such words and terms in the Master Indenture and the Bond Indenture hereinafter described.

This 2020 Note has been issued for the purpose of evidencing and securing the Obligated Group’s payment obligations under a certain Loan Agreement dated as of December 1, 2020 (the “Agreement”), among the Authority, the Corporation and DMII (together with the Corporation, the “Borrowers”). The Agreement and the Authority’s rights thereunder to receive installment payments from the Borrowers, as evidenced and secured hereby, have been assigned by the Authority to the Bond Trustee (defined below) as security for the Authority’s payment obligations in respect of its \$52,405,000 original aggregate principal amount of Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project), Series 2020 (the “2020 Bonds”) issued under an Indenture of Trust dated as of December 1, 2020 (the “Bond Indenture”), between the Authority and U.S. Bank National Association, as trustee (the “Bond Trustee”).

The Obligated Group covenants and agrees to make payments hereunder at the times, in the amounts and for the purposes detailed in Section 5.02 of the Agreement. Notwithstanding the foregoing, the Obligated Group will be entitled to receive as a credit against all amounts due under this 2020 Note, amounts paid directly to the Bond Trustee pursuant to Section 5.02 of the

Exhibit A

Agreement and amounts paid directly to the Authority and the Master Trustee pursuant to Section 5.02 of the Agreement, which payments correspond to amounts due under this 2020 Note.

The Master Indenture permits the issuance of additional series of Obligations under the Master Indenture, subject to the covenants made therein, all of which, regardless of the times of issue or maturity, are to be of equal rank without preference, priority or distinction of any Obligation issued under the Master Indenture over any other such Obligation except as expressly provided or permitted in the Master Indenture.

To the extent permitted by and as provided in the Master Indenture, modifications or changes of the Master Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Members and of the holders of the Obligations in any particular may be made by the execution and delivery of an indenture or indentures supplemental to the Master Indenture or any supplemental indenture. As specified in Section 10.2 of the Master Indenture, certain amendments may only be made with the consent of specified percentages of the holders of Obligations then Outstanding under the Master Indenture. Any such consent given by the holder of this 2020 Note will be conclusive and binding upon such holder and all future holders and owners hereof irrespective of whether or not any notation of such consent is made upon this 2020 Note.

This 2020 Note shall be subject to redemption prior to maturity in accordance with and subject to the same terms and conditions as is the case for the 2020 Bonds as described in the Bond Indenture.

The principal or redemption price of and interest on this 2020 Note, and other amounts required to be paid hereunder, are payable in any coin or currency of the United States of America which, at the time of payment, is legal tender for the payment of public and private debts. The principal or redemption price hereof and interest hereon and other amounts required to be paid hereunder shall be paid by the Master Trustee on each payment date to the Authority.

Upon payment by the Obligated Group of a sum, in cash or Government Obligations, or both, sufficient, together with any other cash and obligations held by the Bond Trustee and available for such purpose, to cause all outstanding 2020 Bonds to be deemed to have been paid within the meaning of the Bond Indenture and to pay all payments due to the Bond Trustee under the Bond Indenture, accrued and to be accrued to the date of discharge of the Bond Indenture, this 2020 Note shall be deemed to have been paid and to be no longer outstanding under the Master Indenture.

If (i) the Obligated Group shall have elected to apply a 2020 Bond or 2020 Bonds that have been redeemed (other than as a part of a redemption fund redemption) or otherwise acquired by the Obligated Group (and delivered to the Bond Trustee for cancellation by the Bond Trustee) in payment of all or a part of any installment of principal required to be paid on the 2020 Bonds or of a mandatory redemption requirement under the Bond Indenture, (ii) the Obligated Group shall have delivered written notice of such election to the Bond Trustee and a copy thereof to the Master Trustee, and (iii) the Authority shall have received a credit against such installment of principal or redemption fund requirement in the amount sufficient to effect cancellation of 100% of the

Exhibit A

any paying agent, the Master Trustee nor any Note registrar shall be affected by any notice to the contrary. All payments made to the registered owner hereof shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable on this 2020 Note.

No covenant or agreement contained in this 2020 Note or the Master Indenture shall be deemed to be a covenant or agreement of any officer, agent or employee of the Obligated Group or of the Master Trustee in his individual capacity, and no incorporator, member, officer or member of the Board of Trustees of a Member shall be liable personally on this 2020 Note or be subject to any personal liability or accountability by reason of the issuance of this 2020 Note.

Copies of the Master Indenture, the Bond Indenture and the Agreement are on file at the Principal Office of the Master Trustee and reference is hereby made to the Master Indenture for the provisions, among others, relating to the nature and extent of the rights of the Holders of Obligations issued under the Master Indenture, the terms and conditions on which and the purposes for which Obligations may be issued and the rights, duties and obligations of the Obligated Group and the Master Trustee under the Master Indenture, to all of which the Authority, by acceptance of this 2020 Note, assents.

This 2020 Note will not be entitled to any benefit under the Master Indenture, or be valid or become obligatory for any purpose, until this 2020 Note has been authenticated by execution by the Master Trustee of the Certificate of Authentication inscribed hereon.

Exhibit A

principal amount of the 2020 Bonds thus applied, then the Bond Trustee shall immediately notify the Master Trustee, whereupon the Obligated Group shall receive a credit, equal to the credit received by the Authority, in respect of the principal due on this 2020 Note on the same date as such installment of principal or redemption fund payment is due under the Bond Indenture, and the principal amount of this 2020 Note due on such date will be reduced accordingly.

Any redemption, either in whole or in part, shall be made upon notice thereof in the manner and upon the terms and conditions provided in the Master Indenture. If this 2020 Note will have been duly called for redemption and payment of the redemption price, together with interest accrued thereon to the date fixed for redemption, will have been made or provided for, as more fully set forth in the Master Indenture, interest on this 2020 Note will cease to accrue from the date fixed for redemption, and from and after such date this 2020 Note will be deemed not to be Outstanding, as defined in the Master Indenture, and will no longer be entitled to the benefits of the Master Indenture, and the holder hereof will have no rights in respect of this 2020 Note other than to receive payment of the redemption price, together with accrued interest to the date fixed for redemption.

Upon the occurrence of certain "Events of Default" (as defined in the Master Indenture), the principal of all Obligations then Outstanding may be declared, and thereupon will become, due and payable as provided in the Master Indenture.

The holder of this 2020 Note has no right to enforce the provisions of the Master Indenture, or to institute any action to enforce the covenants therein, or to take any action with respect to any default under the Master Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Master Indenture.

This 2020 Note is issuable only as a fully registered note or notes without coupons. At the Principal Office of the Master Trustee and subject to the limitations and conditions provided in the Master Indenture, this 2020 Note may be exchanged for an equal aggregate principal amount of registered notes without coupons.

This 2020 Note shall be registered on the register to be maintained by the Master Trustee for that purpose at the Principal Office of the Master Trustee and this 2020 Note shall be transferable only upon said register at said office by the registered owner or by his duly authorized attorney and subject to the limitations set forth in the Master Indenture to the effect that this 2020 Note may only be transferred to a successor trustee under the Bond Indenture or upon the acceleration of all Notes under the Master Indenture. Such transfer shall be without charge to the holder hereof, but any taxes or other governmental charges required to be paid with respect to the same, except by a Bond Trustee, shall be paid by the holder requesting such transfer as a condition precedent to the exercise of such privilege. Upon any such transfer, the Obligated Group Representative shall execute and the Master Trustee shall authenticate and deliver in exchange for this 2020 Note a new registered 2020 Note or 2020 Notes without coupons, registered in the name of the transferee.

Prior to due presentment hereof for registration or transfer, the Obligated Group, the Master Trustee, any paying agent and any Note registrar may deem and treat the person in whose name this 2020 Note is registered as the absolute owner hereof for all purposes; and neither the Members,

Exhibit A

IN WITNESS WHEREOF, the Obligated Group Representative, on behalf of the Members of the Obligated Group, has caused this 2020 Note to be executed in its name and on its behalf and attested, all as of the date first written above.

ATTEST:

**DEMEDICI CORPORATION, as
Obligated Group Representative**

By: _____
Secretary

By: _____
President

Exhibit A

CERTIFICATE OF AUTHENTICATION

SCHEDULE A

This 2020 Note is one of the Obligations described and issued in accordance with the terms and conditions specified in the within mentioned Master Indenture.

U.S. BANK NATIONAL ASSOCIATION, as
Master Trustee

By: _____
Authorized Officer

Exhibit A

-S-1-

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**THIS IS AN OPEN-END MORTGAGE
SECURING FUTURE ADVANCES UP TO
A MAXIMUM PRINCIPAL AMOUNT OF
ONE HUNDRED FIFTY MILLION DOLLARS
PLUS ACCRUED INTEREST AND OTHER INDEBTEDNESS
AS DESCRIBED IN 42 P.A.C.S.A. § 8143**

**OPEN-END MORTGAGE, ASSIGNMENT OF LEASES, SECURITY AGREEMENT
AND FIXTURE FILING**

THIS OPEN-END MORTGAGE, ASSIGNMENT OF LEASES, SECURITY AGREEMENT AND FIXTURE FILING (this "**Mortgage**") dated as of December 1, 2020, to be effective December 11, 2020 is made by DEMEDICI CORPORATION, a Pennsylvania non-profit corporation, with an address of c/o Philadelphia Performing Arts: A String Theory Charter School, 2600 South Broad Street, Philadelphia, PA 19145 ("**Mortgagor**") in favor of U.S. BANK NATIONAL ASSOCIATION, as master trustee under the Master Indenture (as hereinafter defined) with an address of U.S. Bank National Association, Attn: Corporate Trust Services, Two Liberty Place, 50 S. 16th Street, Suite 2000, Philadelphia, PA 19102 ("**Mortgagee**").

**ARTICLE I
OBLIGATIONS; SECURITY**

1.01 **Obligations; Operative Documents.** This Mortgage is executed, acknowledged and delivered by Mortgagor 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 Mortgagor under (i) the Master Trust Indenture dated as of December 1, 2020 (the "**Original Master Indenture**"), as supplemented by a Supplemental Master Trust Indenture No. 1 dated as of December 1, 2020 (the "**Supplemental Master Indenture**," and together with the Original Master Indenture, the "**Master Indenture**") among the Mortgagor, DeMedici Corporation II ("DMII" and, together with the Mortgagor, the "**Obligated Group**") and the Mortgagee, as trustee; (ii) that certain promissory note, designated as the 2020 Note (the "**2020 Note**") issued under the terms of and pursuant to the Master Indenture to secure the Obligated Group's liability under that certain Loan Agreement dated as of December 1, 2020, among the Mortgagor and DMII, as co-borrowers (the "**Borrowers**"), and the Philadelphia Authority for Industrial Development (the "**Authority**"), as lender, pursuant to which the Authority loaned to the Borrowers the proceeds of its Philadelphia Authority for Industrial Development Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project) Series 2020 (the "**2020 Bonds**"); (iii) this Mortgage; and (iv) all modifications, amendments, supplements, renewals, replacements or extensions of any of the foregoing;

(b) Any and all advances made by Mortgagee to protect or preserve the Mortgaged Property (as hereinafter defined) or the lien of this Mortgage, including advances for Impositions (as hereinafter defined) and insurance premiums or costs incurred for the protection of the

Mortgaged Property or the lien of this Mortgage, expenses incurred by Mortgagee by reason of default by the Mortgagor under this Mortgage or advances, made under a construction loan to enable completion of the improvements for which the construction loan was originally made; and

(c) The performance of all of the terms, covenants, conditions, agreements, obligations and liabilities of Mortgagor or any other obligor or guarantor under (i) the Master Indenture, this Mortgage and any other document now or hereafter given to evidence, secure or facilitate the payment and performance of any of the Obligations; and (ii) all extensions, renewals, replacements or modifications of or amendments or additions to any of the foregoing (all of the foregoing being collectively this Mortgage as the "**Operative Documents**"). Mortgagor shall pay and perform the Obligations required of Mortgagor in accordance with the provisions of the Operative Documents.

1.02 **Grant of Mortgage; Mortgaged Property.** For the purpose of securing payment and performance of all Obligations, Mortgagor has granted, conveyed, bargained, sold, aliened, enfeoffed, released, confirmed, assigned to, granted a security interest in and mortgaged, and by these presents does hereby grant, convey, bargain, sell, alien, enfeoff, release, confirm, assign to, grant a security interest in and mortgage unto Mortgagee all of the following whether presently in existence or to come into existence at some future time (collectively, the "**Mortgaged Property**");

(a) All of Mortgagor's right, title and interest in and to certain parcels of land situated in City of Philadelphia, Pennsylvania as described in **Exhibit A** attached hereto and hereby made a part hereof (collectively referred to as the "**Real Estate**"); and

(b) All of Mortgagor's right, title and interest in and to all buildings and improvements now or hereafter erected on the Real Estate (the "**Improvements**") (which Improvements together with the Real Estate are herein separately and collectively referred to as the "**Premises**").

(c) TOGETHER WITH all of Mortgagor's right, title and interest now owned or hereafter acquired in:

(i) all present and future leases, and other occupancy agreements covering all or any portion of the Premises and/or the Improvements (which together with Mortgagor's interest as landlord thereunder are herein collectively referred to herein as the "**Leases**") including, without limitation, the Lease Agreement dated as of December 1, 2020 with Philadelphia Performing Arts: A String Theory Charter School (the "**School Lease**");

(ii) all rents, issues and profits payable under the Leases and under any future renewals, extensions, amendments or modifications thereof (collectively, the "**Income**");

(iii) 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 estates, easements and covenants now existing or hereafter created for the benefit of Mortgagor or any subsequent owner of the

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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 Mortgagor in and to the Real Estate or any part thereof;

(iv) All management agreements, service contracts, license agreements, concession agreements, written or oral, relating to the use and occupancy of the Real Estate and Improvements 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 Mortgagor 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;

(v) All reciprocal easement agreements, operating agreements, and similar agreements however labeled or denominated affecting the Real Estate and Improvements;

(vi) All other documentation now or hereafter existing in connection with the use or operation of the Real Estate and the Improvements including any plans and specifications pertaining to the Improvements, all construction contracts pertaining to the Improvements, all appraisals, engineering, environmental, soils, marketing and other reports and studies relating to the Real Estate and the Improvements, all permits, licenses, and contract rights, warranties, guarantees tenant lists, correspondence with present or prospective tenants or suppliers, advertising materials, and telephone exchange numbers as identified in such advertising materials; and

(d) All Goods, including without limitation, Fixtures, Equipment and Accessions, 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;

(e) All Accounts and General Intangibles relating to the use, construction upon, occupancy, leasing, sale or operation of the Real Estate;

(f) All As-Extracted Collateral arising from the Real Estate;

(g) All books and records evidencing or relating to the foregoing, including, without limitation, billing records of every kind and description, tenant lists, data storage and processing media, Software and related material, including computer programs, computer tapes, cards, disks and printouts, and including any of the foregoing which are in the possession of any affiliate or property manager; and

(h) All Proceeds of any of the above-described property.

Capitalized terms contained in this Section without definition shall have the meanings ascribed to them in revised Article 9 of the Uniform Commercial Code as enacted by the Commonwealth of Pennsylvania and as amended from time to time (the "**UCC**").

TO HAVE AND TO HOLD the Mortgaged Property unto the Mortgagee to and for the use of the Mortgagee forever.

PROVIDED ALWAYS THAT, if Mortgagor fully pays, performs and discharges all Obligations now or hereafter secured or to be secured by this Mortgage at the times and in the manner specified without deduction, fraud or delay, and Mortgagor delivers written notice to Mortgagee requesting termination of this Mortgage of record, then Mortgagee shall release this Mortgage of record and the estate hereby granted shall cease and become void.

1.03 **Security Agreement and Fixture Filing.** This Mortgage is also a security agreement under the UCC. Mortgagor grants and Mortgagee shall have and may enforce a security interest in all those property interests included in the Mortgaged Property which may be "personal property" to secure payment and performance of all Obligations. The recordation of this Mortgage shall also constitute a fixture filing in accordance with the provisions of the UCC. Mortgagor agrees to cooperate and join, at its expense, with Mortgagee in taking such steps as are necessary, in Mortgagee's judgment, to perfect or continue the perfected status of the security interest granted hereunder, including, without limitation, the execution and delivery of financing statements, amendments thereto, and continuation statements. Mortgagee may, at any time and from time to time, file financing statements, continuation statements and amendments thereto that describe the Mortgaged Property and which contain any other information required by the UCC for the sufficiency or filing office acceptance of any financing statement, continuation statement or amendment, including whether Mortgagor is an organization, the type of organization and any organization identification number issued to Mortgagor. Any such financing statements, continuation statements or amendments may be signed by Mortgagee on behalf of Mortgagor. Mortgagor irrevocably appoints Mortgagee attorney-in-fact for Mortgagor to execute, deliver and file such financing statements, continuation statements and amendments. Inasmuch as the parties intend that this Mortgage shall, among other things, constitute a fixture filing, Mortgagor sets forth the following:

(a) The Debtor is DeMedici Corporation, with an address of c/o Philadelphia Performing Arts: A String Theory Charter School, 2600 South Broad Street, Philadelphia, PA 19145;

(b) The Secured Party is U.S. Bank National Association, as Trustee, with an address of 50 South 16th Street, Suite 2000, Philadelphia, PA 19102 (EX-PA-WBSP); and

(c) The collateral includes Fixtures which are or shall be affixed to the Real Estate.

1.04 **Assignment of leases and Income.**

(a) This Mortgage is also an absolute and unconditional assignment to Mortgagee of all Leases and Income, whether now in existence or hereafter arising, for the purpose of vesting in Mortgagee a first priority, perfected security interest in the Leases and the Income. Mortgagor hereby assigns, transfers and sets over to Mortgagee all Leases, all Income and all rights of

Mortgagor to enforce the Leases and collect the Income. This assignment includes any award received or receivable by Mortgagor in any legal proceeding involving any tenant under a Lease whether under the Bankruptcy Code or otherwise.

(b) Mortgagor irrevocably appoints Mortgagee the attorney-in-fact of Mortgagor to enforce the Leases and demand, receive and collect the Income and the sole and exclusive agent of Mortgagor to agree to any modifications of the Leases after the occurrence or continuance of an Event of Default. This power is coupled with an interest and is therefore irrevocable. Mortgagor shall notify any person which Mortgagee may from time to time specify that the Income should be paid directly to Mortgagee and that any modification of the Leases, upon the occurrence or continuance of an Event of Default or otherwise.

(c) So long as no Event of Default (as hereinafter defined) is then existing, Mortgagor shall have a license to enforce the Leases and collect the Income, which license Mortgagee may revoke upon the occurrence of an Event of Default. Upon request of Mortgagee, Mortgagor shall execute and deliver to Mortgagee (i) a specific assignment, in recordable form, of any Lease now or hereafter affecting the Mortgaged Property or any portion thereof to further evidence the assignment hereby made; and (n) such other instruments as Mortgagee may reasonably deem necessary, convenient or appropriate in connection with the payment and delivery directly to Mortgagee of all of the Income.

(d) Mortgagor shall not accept or permit the payment of rent in any medium other than lawful money of the United States of America, or anticipate, discount, compromise, forgive, encumber or further assign the Leases or the Income or any part thereof or any interest therein except as permitted by the Master Indenture.

(e) Mortgagor hereby authorizes and directs that all other parties now or hereafter owing or paying Income under any Lease or now or hereafter having in their possession or control any Income from or allocated to the Mortgaged Property, or any part thereof, or the Proceeds therefrom, shall, upon the request of Mortgagee following the occurrence of an Event of Default that is continuing and until Mortgagee directs otherwise, pay and deliver such Income directly to Mortgagee at Mortgagee's address set forth in the introduction to this Mortgage, or in such other manner as Mortgagee may direct such parties in writing and this authorization shall continue until this Mortgage is released of record. No payor making payments to Mortgagee at its request under the assignment contained in this Mortgage shall have any responsibility to see to the application of any of such funds, and any party paying or delivering Income to Mortgagee under such assignment shall be released thereby from any and all liability to Mortgagor to the full extent and amount of all such Income so delivered. Mortgagor agrees to indemnify and hold harmless any and all parties making payments to Mortgagee under the assignment contained in this Mortgage against any and all liabilities, actions, claims, judgments, costs, charges and attorneys' fees resulting from the delivery of such payments to Mortgagee.

(f) Notwithstanding any provision hereof or legal presumption to the contrary, Mortgagee shall not be obligated by reason of its acceptance of this assignment to perform any obligation of Mortgagor as lessor under any Lease. Neither the acceptance of this assignment nor the collection of Income under the Leases shall constitute a waiver of any rights of Mortgagee under this Mortgage or constitute a cure of any default by Mortgagor thereunder.

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(d) Mortgagor shall make, execute, acknowledge and deliver all such further or other deeds, documents, instruments or assurances and cause to be done all such further acts and things as may at any time be required by Mortgagee to confirm and fully protect the lien and priority of this Mortgage; and

(e) Mortgagor shall make such payments, all before the same shall become delinquent, and perform all obligations as are required under any Permitted Encumbrances affecting the Mortgaged Property.

2.02 No Transfer. Mortgagor shall not transfer any of the Mortgaged Property except in accordance with the terms of the Master Indenture.

(a) A "transfer" of the Mortgaged Property includes (i) the direct or indirect sale, agreement to sell, transfer or conveyance of the Mortgaged Property or any portion thereof or interest therein; and (ii) the execution of any installment land sale contract or similar instrument affecting all or a portion of the Mortgaged Property.

(b) Consent to any such transfer shall not be deemed to be a waiver of the right to require consent to future or successive transfers. If consent should be given to a transfer and if this Mortgage is not released to the extent of the transferred portion of the Mortgaged Property by a writing signed by Mortgagee and recorded in the appropriate office of public record, then any such transfer shall be subject to this Mortgage and any such transferee shall be deemed, by acceptance of the deed or other instrument of transfer, to have assumed all Obligations under this Mortgage and to have agreed to be bound by all provisions contained herein. Any such assumption shall not, however, release Mortgagor or any other obligor or guarantor of the Obligations from any liability under the Operative Documents.

2.03 No Other Financing or Liens. Except for the Permitted Encumbrances (as defined in the Master Indenture), Mortgagor shall not create or cause or permit to exist any lien on the Mortgaged Property whether superior to or subject to the lien of this Mortgage.

2.04 Leases. Mortgagor represents and warrants that there are no leases affecting the Mortgaged Property other than the School Lease. Mortgagor shall not enter into any Leases except as permitted by the Master Indenture.

ARTICLE 3 OBLIGATIONS REGARDING MORTGAGED PROPERTY

3.01 Legal Requirements Generally. Mortgagor represents and warrants to Mortgagee that the Mortgaged Property is in compliance with Legal Requirements (defined below). Mortgagor shall promptly comply with, and cause the Mortgaged Property to be kept in compliance with, all present and future laws, statutes, codes, ordinances, orders, judgments, decrees, injunctions, rules, regulations, restrictions and requirements (collectively "**Legal Requirements**") of the United States of America, the state in which the Real Estate is located and any political subdivision thereof or any town, city, county or municipality in which the Real Estate is located or any agency, department, bureau, board, commission or instrumentality of any of the foregoing now existing or hereafter created (individually, a "**Governmental Authority**" and, collectively, "**Governmental Authorities**") having jurisdiction over Mortgagor or the

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1.05 Open-End Mortgage. This is an Open-End Mortgage and shall be entitled to all benefits as such under 42 Pa.C.S.A. § 8143 (the "**Open-End Mortgage Statute**").

(a) If Mortgagor should at any time elect to limit the Obligations secured by this Mortgage pursuant to Section 8143(c) of the Open-End Mortgage Statute, Mortgagor agrees that notice of such election shall: (i) not be effective unless and until it is served upon Mortgagee in accordance with the requirements of Section 8143(d) of the Open-End Mortgage Statute and fully complies with the requirements for the giving of notices under any provisions of the Master Indenture; (ii) constitute, at the election of Mortgagee, an Event of Default; and (iii) not be effective to limit Mortgagor's liability for payment and performance of all Obligations for which Mortgagor is responsible under this Mortgage or the other Operative Documents (including all reimbursement and indemnification agreements) whether such Obligations arise prior or subsequent to the date of such notice.

(b) By delivery of this Mortgage, Mortgagee and Mortgagor agree that the provisions of 42 Pa.C.S.A. § 8144 are not waived but rather all benefits of such statute shall be applicable hereto.

(c) All notices required by Section 8143(d) of the Open-End Mortgage Statute must be addressed as described in Section 7.04 hereof.

1.06 Purchase Money Mortgage. If all or any part of the Obligations secured by this Mortgage were used in whole or in part to fund the acquisition of all or any part of the Mortgaged Property, this Mortgage shall constitute a purchase money mortgage and shall be entitled to all benefits as such under applicable laws of the state in which the Real Estate is located.

ARTICLE 2 TITLE MATTERS

2.01 Warranty of Title. Until the Obligations are fully satisfied, Mortgagor represents, warrants and covenants that:

(a) Mortgagor has good and marketable simple absolute title to the Mortgaged Property subject only to those exceptions to title more particularly described in the marked up title commitments issued by First American Title Insurance Company file numbers PAF20-2205 and PAF20-3502 and delivered to Mortgagee in connection with this transaction (the "**Permitted Encumbrances**") and Mortgagor shall defend the validity, priority and enforceability of the lien of this Mortgage against the claims of all persons excepting only those claiming under Permitted Encumbrances;

(b) Mortgagor has full power and lawful authority to subject the Mortgaged Property to the lien of this Mortgage;

(c) The execution, delivery and performance of this Mortgage will not contravene any Legal Requirements (hereinafter defined) or any agreement, document or instrument to which Mortgagor is a party or by which Mortgagor or the Mortgaged Property is bound;

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Mortgaged Property or the construction, use, occupancy, operation, maintenance, or improvement of the Mortgaged Property, whether foreseen or unforeseen, ordinary or extraordinary.

3.02 Land Use Approvals. Mortgagor represents and warrants to Mortgagee that the Real Estate is and shall remain one or more zoning lots separate and apart from all other premises. Mortgagor shall not, by any act or omission, impair the integrity of the Real Estate as such separate zoning lot or lots. Mortgagor shall not submit or cause to be submitted to any Governmental Authority an application for zoning, subdivision or development approval affecting the Real Estate if any of the following would result from such proposed zoning change, subdivision or development: (a) the separate transfer, use and ownership of the Real Estate is not permitted as a matter of right under applicable Legal Requirements; (b) the use of the Real Estate as of the date of this Mortgage is no longer permitted as a matter of right under applicable Legal Requirements; or (c) any portion of the Real Estate is used to fulfill a Legal Requirement of other property not subject to the lien of this Mortgage.

3.03 Environmental Matters. (a) Mortgagor represents and warrants that, to Mortgagor's knowledge, neither Mortgagor nor any other person has (A) used, installed or disposed of any Hazardous Materials (hereinafter defined) on, from, or affecting the Mortgaged Property except in full compliance with Applicable Environmental Laws (hereinafter defined); or (B) received any notice from any Governmental Authority with regard to Hazardous Materials on, from or affecting the Mortgaged Property.

(b) Mortgagor shall not use the Mortgaged Property, nor allow it to be used, to generate, manufacture, refine, transport, treat, store, handle, dispose, transfer, produce or process Hazardous Materials except in full compliance with Applicable Environmental Laws. Mortgagor shall not cause or permit, as a result of any intentional or unintentional act or omission on the part of Mortgagor or any other person, a release of Hazardous Materials onto, from or affecting the Mortgaged Property or any other use, installation, or disposition of Hazardous Materials in violation of Applicable Environmental Laws. Mortgagor shall comply, and enforce compliance by all tenants and subtenants, with all Applicable Environmental Laws and shall keep the Mortgaged Property free and clear of any liens imposed pursuant to any Applicable Environmental Laws.

(c) [Reserved].

(d) If Mortgagor receives any notice from any Governmental Authority with regard to Hazardous Materials on, from or affecting the Mortgaged Property, or any notice of violation of Applicable Environmental Laws, Mortgagor shall promptly notify Mortgagee. Mortgagor shall conduct and complete all investigations, studies, sampling, and testing, and all remedial, removal, and other actions necessary to clean up and remove all Hazardous Materials on, from or affecting the Mortgaged Property in accordance with all Applicable Environmental Laws and to the satisfaction of Mortgagee.

(e) The term "**Applicable Environmental Laws**" shall mean, without limitation, all Legal Requirements of any Governmental Authority pertaining to the preservation or enhancement of the quality of the environment or regulating or restricting the use, transfer,

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storage or remediation of Hazardous Materials including the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. Sections 9601, et seq.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Sections 6901, et seq.), the Pennsylvania Hazardous Sites Cleanup Act (35 Pa.C.S.A. Sections 6020.101, et seq.), the Pennsylvania Land Recycling and Environmental Remediation Standards Act (35 P.S. 6026.101-6026.908) and the rules, regulations adopted and publications promulgated pursuant thereto at any time. The term “**Hazardous Materials**” shall mean, without limitation, any flammable explosives, radioactive materials, hazardous materials, hazardous wastes, hazardous or toxic substances, or related materials, asbestos or any material containing asbestos, or any other substance or material regulated under any Applicable Environmental Laws.

3.04 General Obligations. Until the Obligations are fully satisfied, Mortgagor shall:

(a) Perform all maintenance, repair, restoration and rebuilding required to keep the Mortgaged Property in good repair, order and condition in full compliance with the requirements of the Master Indenture, any Leases affecting the Mortgaged Property and all Legal Requirements;

(b) Pay all charges for water, sewer, gas, electric and other utility services provided to the Mortgaged Property promptly as and when due;

(c) Complete any improvements to the Mortgaged Property required under the Master Indenture, any Leases affecting the Mortgaged Property, or required by any Governmental Authority or insurer insuring the Mortgaged Property, in a good and workmanlike manner and free of mechanics’ liens;

(d) Permit, and cause any lessee or occupant of the Mortgaged Property to permit, Mortgagee and its agents and representatives, to enter upon the Mortgaged Property upon not less than forty-eight (48) hours’ advance written notice to appraise and photograph the Mortgaged Property and to inspect for compliance with Legal Requirements (including subsurface investigations to determine compliance with Applicable Environmental Laws), insurance requirements, and the Obligations of Mortgagor under this Mortgage, provided that Mortgagee shall not interfere with the conduct of such Tenant’s activities; and

(e) Make the books and accounts relating to the Mortgaged Property available for inspection by Mortgagee, or its representatives, upon request at any reasonable time.

3.05 General Restrictions. Until the Obligations are fully satisfied, Mortgagor shall not:

(a) Abandon the Mortgaged Property or any portion thereof or allow the same to become vacant;

(b) Commit or suffer waste with respect to the Mortgaged Property;

(c) Impair or diminish the value or integrity of the Mortgaged Property or the priority or security of the lien of this Mortgage;

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and, collectively, “**Impositions**”); provided that Mortgagor may contest any such Imposition as long as it does so diligently and in good faith and posts with Mortgagee appropriate reserves therefor.

(b) Mortgagor shall produce to Mortgagee, at the request of the Mortgagee, official receipts evidencing payment of any Imposition. Mortgagor may contest the validity or amount of any Imposition but only as and to the extent permitted by the Master Indenture (by substituting Mortgagor for references to Corporation therein).

4.02 Taxes on Mortgagee. If any Governmental Authority shall levy, assess or charge any tax, assessment or imposition upon this Mortgage (including any requirement to have affixed to this Mortgage any revenue, documentary or similar stamps) or upon the interest of Mortgagee in the Mortgaged Property by reason of this Mortgage, Mortgagor shall pay the same directly to such Governmental Authority as an Imposition. If Mortgagor is not legally permitted to pay such Imposition or to reimburse Mortgagee for amounts advanced on account of such payment, then Mortgagee may declare the entire amount of the Obligations immediately due and payable within ninety (90) days of demand.

4.03 Corporate Mortgagor. Mortgagor shall at all times until the Obligations are satisfied in full:

(a) Keep in effect and in good standing its existence and rights as a corporation under the laws of the state of its incorporation or constitution and its right to own property and transact business in the state in which the Real Estate is situated; and

(b) File returns for all federal, state and local taxes with the proper Governmental Authorities, and pay, when due and payable and before interest or penalties are due thereon, all taxes owing by Mortgagor to any Governmental Authorities.

4.04 Insurance Coverages. Until the Obligations are fully satisfied, Mortgagor shall maintain and keep in force, or shall cause to be maintained and kept in force, the insurance required under the Master Indenture.

4.05 Installments for Insurance, Taxes and Other Charges. Without limiting the effect of the other provisions of this Article, Mortgagor, if required by Mortgagee following the occurrence of an Event of Default, shall pay to Mortgagee monthly an amount equal to one-twelfth (1/12) of the annual amount of all Impositions and premiums for insurance policies required under this Article plus any additional sums necessary to pay, or establish adequate reserves for the payment of, such premiums and Impositions as and when due. The amounts so paid shall be security for the premiums and Impositions and shall be used in payment thereof if Mortgagor is not otherwise in default under this or any of the other Operative Documents. Upon the occurrence of an Event of Default, Mortgagee shall have the right, at its election, to apply any amount so held against the Obligations. At Mortgagee’s option, Mortgagee from time to time may waive, and after any such waiver may reinstate, the provisions of this section requiring installment payments. This Section shall include authorization for Mortgagee to establish such reserves as it shall deem necessary for the purpose from Income paid to it pursuant to the Master indenture.

(d) Except as permitted in the Master Indenture, remove, demolish or materially alter any of the Mortgaged Property;

(e) Make, install or permit to be made or installed, any additions or improvements to the Mortgaged Property except in a good and workmanlike manner, free of mechanic’s or materialmen’s liens, in compliance with Legal Requirements, and in accordance with plans and specifications approved by an architect appointed by Mortgagor in accordance with Section 7.4 of the Master Indenture (in the case of additions and improvements with a cost in excess of \$250,000; or

(f) Make, suffer or permit any nuisance to exist on the Mortgaged Property or any portion thereof.

3.06 Required Notices. Mortgagor shall notify Mortgagee promptly of the occurrence of any of the following:

(a) A fire or other casualty causing material damage to the Mortgaged Property;

(b) A pending or threatened condemnation of the Mortgaged Property;

(c) A material violation of a Legal Requirement or other notice from or to a Governmental Authority relating to the Mortgaged Property;

(d) Receipt or giving of any notice of default or cancellation under any Lease of all or a material portion of the Mortgaged Property;

(e) Commencement of any material litigation affecting the Mortgaged Property;

(f) Discovery, discharge or release of any Hazardous Material for which Mortgagor is or may be responsible under any Applicable Environmental Laws;

(g) The existence of any event or condition which presents a risk of creating material liability of Mortgagor under ERISA (Public Law 93-406, as amended); or

(h) The occurrence of a default under, or the receipt or giving of any notice under, any Permitted Encumbrance.

ARTICLE 4 TAXES AND INSURANCE

4.01 Real Estate Taxes and Assessments.

(a) Mortgagor shall pay when due and before interest or penalties commence to accrue thereon, all taxes, assessments, water and sewer rents, levies, encumbrances and all other charges or claims of any nature and kind, whether public or private, which may be assessed, levied, imposed, suffered, placed or filed at any time against the Mortgaged Property or any part thereof or which by any present or future law may have priority (either in lien or in distribution out of the proceeds of any sale) over the lien of this Mortgage (individually, an “**Imposition**”

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ARTICLE 5 CASUALTY; CONDEMNATION

5.01 Casualty. If the Mortgaged Property is damaged by fire or other casualty, the net proceeds of insurance, shall be applied in accordance with the terms of the Master Indenture. In the event that such proceeds are applied to repair and restore the Mortgage Property, Mortgagor shall cause the work to be performed by a reputable general contractor under a fixed price or guaranteed maximum price contract, in accordance with plans and specifications prepared by or satisfactory to an architect appointed pursuant to Section 7.4 of the Master Indenture and in compliance with all Legal Requirements, and shall not permit any work to be commenced until waivers of mechanics’ liens have been filed by the general contractor and all those claiming by, through, or under the general contractor.

5.02 Condemnation. In the event of any condemnation or taking of any part of the Mortgaged Property by eminent domain, alteration of the grade of any street, or other injury to or decrease in the value of the Mortgaged Property by any public or quasi-public authority or corporation, the net proceeds of any condemnation awards, shall be applied in accordance with the terms of the Master Indenture. In the event that such proceeds are applied to repair and restore the Mortgaged Property, Mortgagor shall cause the work to be performed by a reputable general contractor under a fixed price or guaranteed maximum price contract, in accordance with plans and specifications prepared by or satisfactory to an architect appointed pursuant to Section 7.4 of the Master Indenture and in compliance with all Legal Requirements, and shall not permit any work to be commenced until waivers of mechanics’ liens have been filed by the general contractor and all those claiming by, through, or under the general contractor.

ARTICLE 6 DEFAULTS; REMEDIES

6.01 Right to Make Advances. If Mortgagor should fail to pay any of its Obligations or perform any of its obligations with respect to the Mortgaged Property as required under Article 3 and Article 4 of this Mortgage, or otherwise fails to pay any of its Obligations or perform any of its obligations under this or any of the other Operative Documents, then Mortgagee, at its election, shall have the right, but not the obligation, to make any payment or expenditure and to take any action which Mortgagor should have made or taken or which Mortgagee deems advisable to protect the security of this Mortgage or the Mortgaged Property. Such action shall be without prejudice to any of Mortgagee’s rights or remedies available under this Mortgage or any of the other Operative Documents or otherwise at law or in equity. All such sums, as well as costs and expenses, advanced by Mortgagee shall be due immediately from Mortgagor to Mortgagee, shall become part of the Obligations secured by this Mortgage and the other Operative Documents, and shall bear interest (including any judgment obtained on account of any of the Obligations) at a rate equal to the highest interest rate borne by the 2020 Note, plus two percent (2%) (the “**Default Rate**”), until repayment in full to Mortgagee.

6.02 Events of Default. The occurrence of any one or more of the following events will, at the election of Mortgagee, constitute an Event of Default under this Mortgage:

(a) Any event of default under the Master Indenture;

(b) Any breach of warranty or other violation of any provision contained in Article 2 of this Mortgage; or

(c) Nonperformance of, or noncompliance with, any of the agreements, covenants, conditions, warranties, representations or other provisions contained in this 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 days after notice thereof is given to Mortgagor; provided if such nonperformance or noncompliance requires 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-day period, no Event of Default shall be deemed to have occurred or to exist if and so long as Mortgagor shall commence such performance or compliance within such thirty-day period and shall diligently and continuously prosecute the same to completion.

6.03 Remedies: Execution. Upon the occurrence and during the continuance of an Event of Default, Mortgagee shall have the right to enforce its rights under this Mortgage and the other Operative Documents by exercising such remedies as are available to Mortgagee 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 any of the other Operative Documents or in aid of the exercise of any power granted in this Mortgage or the other Operative Documents.

(a) Mortgagee shall have the right to obtain judgment for the Obligations (including all amounts advanced or to be advanced by Mortgagee under Section 6.01 above, all costs and expenses of collection and suit, including any bankruptcy or insolvency proceeding affecting Mortgagor, and reasonable attorneys' fees incurred in connection with any of the foregoing) together with interest on such judgment at the Default Rate until payment in full is received by Mortgagee and Mortgagee shall have the right to obtain execution upon the Mortgaged Property on account of such judgment.

(b) Mortgagee shall have the right to 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 Article 1 of this Mortgage as applicable law or the provisions of the Operative Documents may allow.

6.04 Remedies: Collection of Income. Upon the occurrence and during the continuance of an Event of Default, Mortgagee may, at any time without notice, either in person, by agent or by a receiver appointed by a court, and without regard to the adequacy of any security for the Obligations, enter upon the Mortgaged Property and, with or without taking possession of the Mortgaged Property, and with or without legal action, collect all Income (which term shall also include amounts determined by Mortgagee as fair rental value for use and occupation of the Mortgaged Property by any person, including Mortgagor) and, after deducting all costs of collection and administration expense including reasonable attorneys' fees and reasonable reserves, apply the net Income to any of the Obligations in such order and amounts as Mortgagee in its sole discretion may determine, or any of the following in such order and amounts as Mortgagee in its sole discretion may elect: the payment of any sums due, or accumulation of necessary reserves for, payment of all costs and expenses arising from or incurred in connection with (a) the preservation and protection of the validity and priority of the lien of this Mortgage;

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OTHER OPERATIVE DOCUMENTS, AND SHALL SURVIVE ANY EXECUTION SALE TO MORTGAGEE.

BY AGREEING THAT MORTGAGEE MAY CONFESS JUDGMENT HEREUNDER MORTGAGOR, FOR ITSELF AND ANY OTHER PERSONS OR ENTITIES NOW OR HEREAFTER IN POSSESSION OF ALL OR ANY PART OF THE MORTGAGED PROPERTY, WAIVES THE RIGHT TO NOTICE IN A PRIOR JUDICIAL PROCEEDING TO DETERMINE THEIR RIGHTS AND LIABILITIES AND THE OPPORTUNITY TO RAISE ANY DEFENSE, SET OFF, COUNTERCLAIM OR OTHER CLAIM AGAINST SUCH ACTION BY MORTGAGEE.

6.06 Remedies: Repossession. Upon the occurrence and during the continuance of an Event of Default, Mortgagee shall have the right to take possession of any portion of the Mortgaged Property constituting fixtures or other personal property subject to the UCC, and any records pertaining thereto. Mortgagee shall have the right to use, operate, manage, lease or otherwise control such Mortgaged Property in any lawful manner and, in its sole discretion but without any obligation to do so, insure, maintain, repair, renovate, alter or remove such Mortgaged Property and to use, in connection with any assembly, use or disposition of such Mortgaged Property any trade mark, trade name, trade style, copyright, brand, patent right or technical process used or utilized by Mortgagor. In addition, upon ten (10) calendar days' prior written notice to Mortgagor (which Mortgagor hereby acknowledges to be sufficient and commercially reasonable) Mortgagee shall have the right to sell, lease or otherwise dispose of all or any of such Mortgaged Property at any time and from time to time at public or private sale, with or without advertisement thereof, with the right of Mortgagee or its nominee to become purchaser at any sale (unless prohibited by statute) free from any equity of redemption and from all other claims, and after deducting all legal and other expenses for maintaining or selling such Mortgaged Property, and all attorneys' fees, legal or other expenses for collection, sale and delivery, apply the remaining proceeds of any sale to pay (or hold as a reserve against) the Obligations and exercise all other rights and remedies of a secured party under the UCC or any other applicable law.

6.07 Remedies: Appointment of Receiver. Upon the occurrence and during the continuance of an Event of Default, Mortgagee may, without notice, obtain appointment of a receiver for the Mortgaged Property without regard to the adequacy of any security for the Obligations.

6.08 Remedies: Actions Prior to Acceleration. Mortgagee shall have the right, from time to time, to bring an appropriate action or actions to recover any sums required to be paid by Mortgagor under the terms of this Mortgage, as they become due, without regard to whether or not the Obligations shall be due and payable in full, and without prejudice to the right of Mortgagee thereafter to bring an action of mortgage foreclosure, or any other action, for any default by Mortgagor existing at the time the earlier action was commenced.

6.09 No Marshalling. Any of the Mortgaged Property sold pursuant to any writ of execution issued on a judgment obtained on the Obligations or pursuant to any other judicial proceedings relating to the Operative Documents or this Mortgage, may be sold in one parcel, as

(b) the preservation and protection of the Mortgaged Property; (c) compliance with Legal Requirements; and (d) fulfilling any obligations of Mortgagor or any other obligor or guarantor under the Permitted Encumbrances, the Leases, this Mortgage or the Master Indenture. Mortgagee shall not be accountable for more monies than it actually receives from the Mortgaged Property nor shall it be liable for failure to collect the Income. Mortgagee shall have the right to determine the method of collection and the extent to which enforcement of collection of Income shall be prosecuted and Mortgagee's judgment shall be deemed conclusive and reasonable.

6.05 Remedies: Possession. Upon the occurrence and during the continuance of an Event of Default Mortgagee may, with or without legal action, take possession and control of the Mortgaged Property to the exclusion of Mortgagor and all others excepting only those claiming under Permitted Encumbrances. Mortgagee shall have the authority while so in possession to insure (at Mortgagor's expense) against all risks by reason of having taken such possession and Mortgagor will transfer and deliver to the Mortgagee all policies of insurance upon the Mortgaged Property not theretofore transferred and delivered to Mortgagee. **FOR THE PURPOSE OF OBTAINING POSSESSION OF THE MORTGAGED PROPERTY UPON THE OCCURRENCE AND DURING THE CONTINUANCE OF ANY EVENT OF DEFAULT, MORTGAGOR HEREBY AUTHORIZES AND EMPOWERS ANY ATTORNEY OF ANY COURT OF RECORD IN THE STATE IN WHICH THE REAL ESTATE IS LOCATED OR ELSEWHERE AS ATTORNEY FOR MORTGAGOR AND ALL PERSONS CLAIMING UNDER OR THROUGH MORTGAGOR, TO CONFESS JUDGMENT IN EJECTMENT AND CONFESS JUDGMENT FOR RECOVERY OF POSSESSION OF THE MORTGAGED PROPERTY AND TO APPEAR FOR AND CONFESS JUDGMENT AGAINST MORTGAGOR, AND ALL PERSONS CLAIMING UNDER OR THROUGH MORTGAGOR OF MORTGAGEE FOR RECOVERY BY MORTGAGEE OF POSSESSION THEREOF, FOR WHICH THIS MORTGAGE, OR A COPY THEREOF VERIFIED BY AFFIDAVIT, SHALL BE SUFFICIENT WARRANT; AND THEREUPON A WRIT POSSESSION MAY IMMEDIATELY ISSUE FOR POSSESSION OF THE MORTGAGED PROPERTY, WITHOUT ANY PRIOR WRIT OR PROCEEDING WHATSOEVER AND WITHOUT ANY STAY OF EXECUTION. IF FOR ANY REASON AFTER SUCH ACTION HAS BEEN COMMENCED IT SHALL BE DISCONTINUED, OR POSSESSION OF THE MORTGAGED PROPERTY SHALL REMAIN IN OR BE RESTORED TO MORTGAGOR, MORTGAGEE SHALL HAVE THE RIGHT FOR THE SAME EVENT OF DEFAULT OR ANY SUBSEQUENT EVENT OF DEFAULT TO BRING ONE OR MORE FURTHER ACTIONS TO CONFESS JUDGMENT IN EJECTMENT AND CONFESS JUDGMENT FOR RECOVERY OF POSSESSION OF THE MORTGAGED PROPERTY. MORTGAGEE MAY BRING AN ACTION TO CONFESS JUDGMENT IN EJECTMENT AND TO CONFESS JUDGMENT FOR RECOVERY OF POSSESSION OF THE MORTGAGED PROPERTY BEFORE OR AFTER THE INSTITUTION OF PROCEEDINGS TO FORECLOSE THIS MORTGAGE OR TO ENFORCE ANY OF THE OTHER OPERATIVE DOCUMENTS, OR AFTER ENTRY OF JUDGMENT THEREON OR ON ANY OF THE OTHER OPERATIVE DOCUMENTS, OR AFTER A SHERIFF'S SALE OF THE MORTGAGED PROPERTY IN WHICH MORTGAGEE IS THE SUCCESSFUL BIDDER, IT BEING THE UNDERSTANDING OF THE PARTIES THAT THE AUTHORIZATION TO PURSUE SUCH PROCEEDINGS FOR OBTAINING POSSESSION IS AN ESSENTIAL PART OF THE REMEDIES FOR ENFORCEMENT OF THIS MORTGAGE AND THE**

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an entirety, or in such parcels, and in such manner or order as Mortgagee, in its sole discretion, may elect.

6.10 Rights and Remedies Cumulative. (a) All rights and remedies of Mortgagee as provided in this Mortgage and the other Operative Documents shall be cumulative and concurrent, may be pursued separately, successively or together against Mortgagor or the Mortgaged Property, or both, at the sole discretion of Mortgagee and may be exercised as often as occasion therefor shall arise. The failure to exercise any such right or remedy shall in no event be construed as a waiver or release thereof.

(b) Any failure by Mortgagee to insist upon strict performance by Mortgagor of any of the terms and provisions of this Mortgage or the other Operative Documents shall not be deemed to be a waiver of any of the terms or provisions of this Mortgage or the other Operative Documents and Mortgagee shall have the right thereafter to insist upon strict performance by Mortgagor of any and all of them.

ARTICLE 7 MISCELLANEOUS

7.01 Costs and Expenses. If the Mortgagee becomes a party to any suit or proceeding affecting the Mortgaged Property, title thereto, the lien created by this Mortgage or Mortgagee's interest therein, or in the event of the commencement of any bankruptcy or insolvency proceedings involving Mortgagor, or if Mortgagee engages counsel to collect or to enforce performance of the Obligations, or if Mortgagee incurs any other costs and expenses in perfecting, protecting or enforcing its rights hereunder or in responding to any request of Mortgagor for any waiver, approval, modification or release in connection with this Mortgage or the Mortgaged Property, Mortgagee's reasonable counsel fees, and all other costs and expenses paid or incurred by Mortgagee, including reasonable fees of appraisers, accountants, consultants, and other professionals, title premiums, title report and work charges, filing fees, and mortgage, mortgage registration, transfer, stamp and other excise taxes, whether or not an Event of Default shall have occurred, shall be paid to Mortgagee, on demand, with interest at the Default Rate and until paid they shall be deemed to be part of the Obligations secured by this Mortgage.

7.02 Indemnity. Mortgagor shall indemnify, defend and hold Mortgagee harmless from and against any claims, expenses, demands, losses, costs, fines or liabilities of any kind (including those involving death, personal injury or property damage and including reasonable attorneys' fees and costs) arising from or in any way related to the failure of Mortgagor to comply with, or the failure of the Mortgaged Property to be kept in compliance with, the Legal Requirements, Applicable Environmental Laws, the Leases and the Permitted Encumbrances except to the extent caused by the gross negligence or intentional misconduct of Mortgagee. The indemnification of Mortgagor under this section shall survive the release or termination of this Mortgage and shall remain effective notwithstanding any foreclosure of this Mortgage or other execution against the Mortgaged Property or acceptance of a deed in lieu of foreclosure. The Indemnity set forth in this Section 7.02 shall be in addition to and not in lieu of any other indemnifications of the Mortgagee by the Mortgagor contained in any other documents or agreements executed in connection with the issuance of the 2020 Bonds.

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7.03 Declaration of No Set-Off. Within ten days after requested to do so by Mortgagee, Mortgagor shall certify to Mortgagee or to any proposed assignee of this Mortgage or participant in the Obligations in a writing duly acknowledged, the amount of principal, interest and other charges then owing on the Obligations secured by this Mortgage and whether there are set-offs or defenses against them.

7.04 Communications. All notices required under this Mortgage shall be in writing and shall be delivered in accordance with the applicable provisions contained in the Master Indenture. A party may change its address by giving written notice to the other party as specified therein.

7.05 Covenant Running with the Land. Any act or agreement specified herein to be done or performed by Mortgagor shall be construed as a covenant running with the land and shall be binding upon Mortgagor and its successors and assigns as if each had personally made such agreement.

7.06 Amendment. Any amendment, modification, or waiver which may be hereafter requested by Mortgagor or otherwise required must be in writing and signed by both Mortgagor and Mortgagee.

7.07 Applicable Law. This Mortgage shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania. Nothing contained in this Mortgage or in any of the other Operative Documents shall require Mortgagor to pay, or Mortgagee to accept, interest in an amount which would subject Mortgagee to penalty under applicable law.

7.08 Construction. Whenever used in this Mortgage, unless the context clearly indicates a contrary intent.

(a) The word "Mortgagor" shall mean the persons who execute this Mortgage and any subsequent fee owner of the Mortgaged Property and his respective heirs, executors, administrators, personal representatives, successors and assigns;

(b) The word "Mortgagee" shall mean, collectively, all of the entities listed as Mortgagee hereinabove or any subsequent holder of this Mortgage or participant in the loan secured hereby;

(c) The word "person" shall mean any individual, corporation, partnership, limited liability company or unincorporated association;

(d) The use of any gender shall include all genders;

(e) The singular number shall include the plural and the plural the singular as the context may require;

(f) The word "including" shall mean "including but not limited to" or "including without limitation" as the context may require.

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IN WITNESS WHEREOF, Mortgagor, intending to be legally bound hereby, has duly executed this Mortgage, under seal, as of the day and year first above written.

DEMEDICI CORPORATION, a
Pennsylvania nonprofit corporation

By: _____
Name: Javier Kuehnle
Title: President of the Board of Trustees

I hereby certify that the address
of Mortgagee is:
U.S. Bank National Association
50 South 16th Street, Suite 2000
Philadelphia, PA 19102 (EX-PA-WBSP)

On behalf of Mortgagee

7.09 Headings. The headings of sections have been included in this Mortgage for convenience of reference only and shall not be considered in interpreting this Mortgage.

7.10 Severability. If any provision of this Mortgage shall be held for any reason to be invalid, illegal or unenforceable, such impairment shall not affect any other provision of this Mortgage.

7.11 Receipt of Copy. Mortgagor acknowledges receipt of conformed copy of this Mortgage.

7.12 Nonforeign Entity.

(a) Mortgagor hereby certifies, under penalty of perjury, that: (i) Mortgagor is not a foreign person, foreign corporation, foreign partnership, foreign trust or foreign estate, as those terms are defined in the Internal Revenue Code of 1986, as amended and regulations promulgated thereunder; (ii) Mortgagor's U.S. employer identification number is 01-0818965; and (iii) Mortgagor's principal place of business is set forth in the introduction paragraph of this Mortgage.

(b) Mortgagor warrants that withholding of tax will not be required in the event of any disposition of the Mortgaged Property, or any portion thereof, pursuant to the terms of this Mortgage. Mortgagor covenants and agrees to execute such further certificates, which shall be signed under penalty of perjury, as Mortgagee shall require. The provisions of this section shall survive the foreclosure or other execution upon the lien of this Mortgage or acceptance of a deed in lieu of foreclosure.

7.13 Acknowledgment. THIS MORTGAGE CONTAINS A POWER OF ATTORNEY COUPLED WITH AN INTEREST AND IS FOR THE MORTGAGEE. THIS MORTGAGE IS BEING EXECUTED IN CONNECTION WITH A LOAN OR OTHER FINANCIAL TRANSACTION FOR BUSINESS PURPOSES AND NOT PRIMARILY FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES MORTGAGEE, AS AGENT FOR MORTGAGOR UNDER THE POWER OF ATTORNEY IS NOT A FIDUCIARY FOR THE MORTGAGOR. MORTGAGEE, IN EXERCISING ANY OF ITS RIGHTS OR POWERS PURSUANT TO THE POWER OF ATTORNEY, MAY DO SO FOR THE SOLE BENEFIT OF MORTGAGEE AND NOT FOR MORTGAGOR. THE PARTIES ACKNOWLEDGE AND AGREE THAT THE PROVISIONS OF TITLE 20, PENNSYLVANIA CONSOLIDATED STATUTES, SECTION 5601 ET SEQ. AS AMENDED SPECIFICALLY INCLUDING ACT 39 OF 1999) SHALL NOT BE APPLICABLE TO ANY POWER OF ATTORNEY CONTAINED IN THIS MORTGAGE.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK
SIGNATURE PAGE FOLLOWS]

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COMMONWEALTH OF PENNSYLVANIA :
 : ss.
COUNTY OF PHILADELPHIA :

On this ____ day of _____, 2020, before me, a Notary Public for said State and County, the undersigned officer, personally appeared Javier Kuehnle, known to me or satisfactorily proven and who acknowledged himself/herself to be the President of the Board of Trustees of DEMEDICI CORPORATION, a Pennsylvania nonprofit corporation, and that he, as such officer, being authorized to do so, executed the foregoing instrument for the purposes therein contained by signing his/her name on behalf of the Corporation as such officer.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

My Commission Expires:

(Signature page to Mortgage re Philadelphia Performing Arts: A String Theory
Charter School Project 2020)

(Signature page to Mortgage re Philadelphia Performing Arts: A String Theory
Charter School Project 2020)

EXHIBIT A

ALL THAT CERTAIN lot or piece of ground with the buildings and improvements thereon erected.

SITUATE in the 26th Ward of the City of Philadelphia described according to a Survey and Plan of Property made for South Philadelphia Boys Club by John Stefanco, Surveyor and Regulator of the 2nd District dated 3/29/1972, to wit:

BEGINNING at a point formed by the intersection formed by the Westerly side of Broad Street (113 feet wide) and the Southerly side of Shunk Street (60 feet wide); thence extending Southwestwardly along the said Westerly side of Broad Street the distance of 166 feet 7.375 inches to a point; thence Northwestwardly on a line parallel with said Shunk Street along a subdivision line 82 feet 0 inches to a point on the center line of a 4 feet wide alley which leads Northeastwardly and Southwestwardly connecting at the Northerly end with a 3 feet wide alley which leads Southeastwardly from Rosewood Street (30 feet wide) and said 4 feet wide alley connects at its Southerly end with another 3 feet wide alley which leads Southeastwardly from said Rosewood Street; thence Northeastwardly along the center line of said 4 feet wide alley on a line parallel with said Broad Street 102 feet 1.375 inches to a point on the center line of said first mentioned 3 feet wide alley; thence Northwestwardly along the center line of said first mentioned 3 feet wide alley and on a line parallel with said Shunk Street 2 feet 0 inches to a point; thence Northeastwardly on a line parallel with said Broad Street partly crossing said first mentioned 3 feet wide alley and passing through a wall 64 feet 6 inches to a point on the said Southerly side of Shunk Street; thence Southeastwardly along the said Southerly side of Shunk Street 84 feet 0 inches to a point on the said Westerly side of Broad Street being the first mentioned point and place of beginning.

BEING known as 2600-30 South Broad Street.

BEING Parcel #77-3-6840-00.

ALL THAT CERTAIN lot or piece of ground with the buildings and improvements thereon erected, situate in the 26th Ward of the City of Philadelphia and described according to a Plan thereof made by Ben H. Joseph, Surveyor and Regulator of the 3rd District dated 6/27/1946, as follows, to-wit:

BEGINNING at a point formed by the intersection of the Westerly side of Broad Street (113 feet wide) and the Southerly side of Shunk Street (60 feet wide); thence extending Southwardly along the Westerly side of Broad Street 266 feet 7-3/8-inches to a point where said line intersects the Northerly side of Moyamensing Avenue; thence in a Southwesterly direction along the Northerly side of Moyamensing Avenue 161 feet 11-3/8 inches to a point where said line intersects the Easterly side of Rosewood Street (30 feet wide); thence extending in a Northeasterly direction along the Easterly side of Rosewood Street 70 feet 8-3/8 inches to a point in the center line of a 3 feet wide alley which extends Westerly into Rosewood Street; thence leaving Rosewood Street and along the center line of said 3 feet wide alley Eastwardly and parallel with Shunk Street 48 feet to a point in the center line of a 4 feet wide alley which extends Northwardly and Southwardly and communicates at the Southerly end thereof with the 3 feet wide alley hereinabove mentioned and at its Northerly end with a certain other 3 feet wide alley which extends Westerly into Rosewood Street; thence in a Northeasterly direction along the center line of said 4 feet wide alley and on a line parallel with Broad Street 228 feet to a point in the center line of the second above mentioned 3 feet wide alley; thence in a Westerly direction along the center line of said 3 feet wide alley and parallel with Shunk Street 2 feet to a point; thence leaving said alley and Northerly along a line parallel with Broad Street 64 feet 6-inches to a point on the Southerly side of Shunk Street; thence

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extending Eastwardly along the Southerly side of Shunk Street 84 feet to the first mentioned point and place of beginning.

BEING known as 2632 South Broad Street.

BEING Parcel #88-3-5371-00.

TOGETHER with all rights, title and interest which the within Grantor now has in the aforesaid alleys as and for passageways and watercourses forever.

EXCEPTING THEREOUT AND THEREFROM:

ALL THAT CERTAIN lot or piece of ground with the buildings and improvements thereon erected.

SITUATE in the 26th Ward of the City of Philadelphia described according to a Survey and Plan of Property made for South Philadelphia Boys Club by John Stefanco, Surveyor and Regulator of the 2nd District dated 3/29/1972, to wit:

BEGINNING at a point formed by the intersection formerly the Westerly side of Broad Street (113 feet wide) and the Southerly side of Shunk Street (60 feet wide); thence extending Southwestwardly along the said Westerly side of Broad Street the distance of 166 feet 7-3/8 inches to a point; thence Northwestwardly on a line parallel with the said Shunk Street along a proposed subdivision line 82 feet 0 inches to a point on the center line of a 4 feet wide alley which leads Northeastwardly and Southwestwardly connecting at the Northerly end with a 3 feet wide alley which leads Southeastwardly from Rosewood Street (30 feet wide) and said 4 feet wide alley connects at its Southerly end with another 3 feet wide alley which leads Southeastwardly from said Rosewood Street ; thence Northeastwardly along the center line of said 4 feet wide alley on a line parallel with said Broad Street 102 feet 1-3/8 inches to a point on the center line of said lot mentioned 3 feet wide alley; thence Northwestwardly along the center line of said 1st mentioned 3 feet wide alley and on a line parallel with said Shunk Street 2 feet 0 inches to a point; thence Northeastwardly on a line parallel with said Broad Street partly crossing said 1st mentioned 3 feet wide alley and passing through a wall 64 feet 6 inches to a point on the said Southerly side of Shunk Street; thence Southeastwardly along the said Southerly side of Shunk Street 84 feet 0 inches to a point on the said Westerly side of Broad Street being the first mentioned point and place of beginning.

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This instrument drafted by and
When recorded return to:

Ballard Spahr LLP
210 Lake Drive East, Suite 200
Cherry Hill, New Jersey 08002
Attention: Holly Horsley, Esq.

Tax Parcel Id. Nos. 77-3-6840-00 and 88-3-5371-00

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

BY AND AMONG

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL,
as Lessee

DEMEDICI CORPORATION,
as Lessor

AND

U.S. BANK NATIONAL ASSOCIATION,
as Master Trustee

Dated as of December 1, 2020

\$52,405,000
Philadelphia Authority for Industrial Development
Charter School Revenue Bonds
(Philadelphia Performing Arts: A String Theory
Charter School Project)
Series 2020

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

This Subordination, Non-Disturbance and Attornment Agreement is entered into as of December 1, 2020 (the "Agreement"), by and among Philadelphia Performing Arts: A String Theory Charter School (the "Lessee"), DeMedici Corporation (the "Lessor"), and U.S. Bank National Association (the "Master Trustee"). Capitalized terms used but not defined herein have the meanings ascribed to such terms in the Lease (as defined below).

RECITALS:

A. The Lessor holds title to certain real property (the "Premises") located in Philadelphia County, Pennsylvania, together with all improvements located on it. The legal description for the Premises is attached hereto as Exhibit A.

B. The Philadelphia Authority for Industrial Development (the "Issuer") will issue its Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project), Series 2020 (the "Series 2020 Bonds"), in the original aggregate principal amount of \$52,405,000 pursuant to an Indenture of Trust dated as of December 1, 2020 (the "Indenture"), between the Issuer and U.S. Bank National Association, as bond trustee. Pursuant to a Loan Agreement dated as of December 1, 2020 (the "Loan Agreement"), among the Issuer, the Lessor and DeMedici Corporation II (together with the Lessor, the "Borrowers" or the "Obligated Group"), the Issuer has agreed to loan to the Borrowers the sale proceeds of the Series 2020 Bonds to finance the project described therein and the Borrowers have agreed to pay to the Issuer loan payments sufficient to meet the obligations under the Series 2020 Bonds when the same become due and payable. As security for its obligation to make payments required under the Loan Agreement, the Lessor, as "Obligated Group Representative" of the Obligated Group, has issued a promissory note (the "2020 Note") under the terms of and pursuant to the Master Trust Indenture dated as of December 1, 2020 (the "Original Master Indenture"), between the Obligated Group and the Master Trustee, as supplemented by a Supplemental Master Trust Indenture No. 1 dated as of December 1, 2020 (the "Supplemental Master Indenture" and, together with the Original Master Indenture, the "Master Indenture") between the Obligated Group Representative and the Master Trustee. The obligation of the Lessor to pay to make payments (the "Loan") evidenced by the 2020 Note is secured by the lien of the Open-End Mortgage, Assignment of Leases and Income, Security Agreement and Fixture Filing dated as of December 1, 2020 and effective December 11, 2020 (the "Mortgage"), executed by the Lessor for the benefit of the Master Trustee, that encumbers the Lessor's interest in the Premises. The 2020 Note, the Master Indenture, the Mortgage, this Agreement and all other documents evidencing, securing the repayment of, or relating to, the Loan are collectively referred to as the "Loan Documents."

C. The Premises are owned by the Lessor and leased from the Lessor to the Lessee pursuant to the Lease Agreement, dated as of December 1, 2020 and effective December 11, 2020 (the "Lease"), as may be amended from time to time, between the Lessor and the Lessee, executed in connection with the issuance of the Series 2020 Bonds.

D. The underwriter for the Series 2020 Bonds is willing to purchase the Series 2020 Bonds, the Issuer is willing to issue the Series 2020 Bonds and loan the proceeds thereof to the Lessor and the Master Trustee is willing to enter into the Master Indenture and the Mortgage provided that the Lessor agrees to subordinate the Lessor's rights under the Lease to the lien or charge of the Loan Documents and to attorn to the Master Trustee on the terms and conditions of this Agreement. The Lessee is willing to agree to such subordination and attornment and other conditions provided the Master Trustee agrees not to disturb the Lessee's possession in accordance with the terms of the Lease, all as set forth more fully below.

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AGREEMENTS:

The parties agree as follows:

1. **Subordination.** The Loan Documents and all supplements, amendments, modifications, renewals, replacements and extensions of and to them shall be and will remain at all times a lien or charge on the Premises prior and superior to the Lease, to the leasehold estate created by the Lease, and to all rights and privileges of the Lessee arising under the Lease. The Lessor subjects and subordinates the Lease, the Lessor's leasehold estate and all rights and privileges arising in the Lessor's favor under the terms of the Lease to the lien of the Loan Documents in favor of the Master Trustee. The Lessee consents to the Lessor's and the Master Trustee's entering into the Mortgage and the other Loan Documents. The Lessor further declines, agrees and acknowledges that, in making disbursements in accordance with the Loan Documents, the Master Trustee does not have any obligation or duty to, nor has the Master Trustee represented that it will, see to the application of such proceeds by the person or persons to whom the Master Trustee disburses such funds, and any application or use of such proceeds will not defeat the subordination that the Lessor makes in this Agreement, in whole or in part.

2. **Definitions of "Transfer of the Premises" and "Purchaser".** The term "Transfer of the Premises" means any transfer of the Lessor's interest in the Premises by foreclosure or trustee's sale or as a result of any other action or proceedings for the enforcement of the Mortgage or any transfer by deed in lieu of foreclosure. The term "Purchaser" means any transferee, including the Master Trustee, that acquires the Lessor's interest in the Premises as a result of a Transfer of the Premises, and all successors and assigns, including the Master Trustee, of that initial transferee.

3. **Non-Disturbance.** Notwithstanding any Transfer of the Premises, the Master Trustee's seizure of possession of the Premises, any other similar action to enforce the Mortgage, or any other action taken in connection with the Mortgage:

(a) the holder or beneficiary of the Mortgage will not name or join Lessee in any foreclosure, trustee's sale or other proceeding to enforce the Mortgage unless an Event of Default by Lessee (as defined in the Lease) has occurred and is continuing or the joinder is required by Pennsylvania law in order to perfect the foreclosure, trustee's sale or other proceeding;

(b) the enforcement of the Mortgage will not terminate the Lease or disturb the Lessee in its possession and use of the Premises unless an Event of Default has occurred and is continuing under the Lease; and

(c) the leasehold estate granted by the Lease will not be affected in any manner so long as no Event of Default has occurred and is continuing and the Lease is in full force and effect, and in no event shall either the Master Trustee, if it becomes the Purchaser or if it takes possession of the Premises in accordance with the terms of the Mortgage, or any other Purchaser:

(i) be liable for any damages attributable to any act or omission of any prior Lessor (including the Lessor);

(ii) be liable for any damages attributable to any latent or patent defects in the construction of any portion of the Premises;

(iii) be subject to any offset, counterclaim or defense that the parties have not specifically contemplated in the Lease and that the Lessee may have against any prior Lessor;

(iv) be bound by any prepayment that the Lessee makes more than thirty (30) days in advance of the date on which the payment becomes due under the terms of the Lease or for any security deposit not actually delivered to the Purchaser or by any modification or amendment of the Lease made without the Master Trustee's written consent unless the Lease specifically contemplates the prepayment, amendment or modification and the parties observe all conditions set forth in the Lease that relate to the prepayment, amendment or modification;

(v) be obligated to complete any pre-occupancy construction work;

(vi) be bound by any amendment or modification of the Lease or by any waiver or forbearance on the part of any lessor (including the Lessor) made or given without the written consent of the Master Trustee or any subsequent holder of the Mortgage unless the Lease specifically contemplates the amendment or modification and the parties observe all conditions set forth in the Lease that relate to the amendment or modification; or

(vii) be bound by any representations or warranties of the Lessor under the Lease. The foregoing agreement will not affect the Lessee's right to exercise or to continue to exercise after a Purchaser succeeds to the Lessor's interest in the Premises any remedy, including, without limitation, the offsetting of rent, that may be available to the Lessee by virtue of any default that occurs in respect of the performance of the Lessor's obligations under the terms of the Lease and of which the Lessee has given the Master Trustee written notice prior to the Purchaser's succession to the Lessor's interest.

4. **Attornment.** If any Transfer of the Premises occurs, the Purchaser will be bound to the Lessee and the Lessee will be bound to the Purchaser under all of the terms, covenants and conditions of the Lease for the balance of the term of the Lease and any extensions or renewals of that term, whether occurring by reason of the exercise of any valid extension or renewal option contained in the Lease or otherwise, all with the same force and effect as if the Purchaser had been the original Lessor designated in the Lease. The Lessee attorns to the Purchaser, including the Master Trustee if it becomes the Purchaser, as the Lessor under the Lease. This agreement to attorn will be effective and self-operative without the execution of any further instruments, upon the Purchaser's succession to the Lessor's interest under the terms of the Lease.

5. **Use of Proceeds.** So long as no Event of Default by Lessee under the terms of the Lease has occurred and is continuing and the Lease is in full force and effect, the Master Trustee will (i) apply any proceeds paid in respect of the insurance that the Lessee maintains in force in accordance with the terms of the Lease to be used for the restoration of the Premises and otherwise applied as provided in the Lease, the Master Indenture and the Mortgage, and (ii) apply any condemnation award paid in connection with a taking of any part of the Premises or any proceeds of a sale made in lieu of condemnation of a part of the Premises to be used for the repair and alteration of the remainder of the Premises as provided in the Lease, the Master Indenture and the Mortgage.

6. **Default by Lessor.** If the Lessor defaults in the performance of obligations it undertakes under the terms of the Loan Documents, the Lessee will recognize the assignment of rents of the Lessor made to the Master Trustee in the Mortgage and will pay to the Master Trustee, as assignee, all rents that become due under the terms of the Lease after the date of Lessee's receipt of written notice from the Master Trustee that the Lessor is in default under the terms of the Loan Documents. The Lessor authorizes the Lessee to accept the Master Trustee's direction and waives all claims against the Lessee for any sums so paid at the Master Trustee's direction. The Master Trustee acknowledges, however, that in the event that

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the Lessee makes payments of rent to the Lessor by means of computer-generated checks, the Lessee will require a period of time within which to re-program its accounts payable computer system to reflect the Lessee's receipt of the Master Trustee's direction. Consequently, in such event Lessee will have no liability to Master Trustee for any regularly scheduled installment of rent remitted to the Lessor during the period that begins on the date of Lessee's receipt of Master Trustee's direction and that ends thirty (30) days after that date. The Lessor will promptly remit to the Master Trustee any scheduled installment of rent received during this 30-day period. Lessee's payment of rents to Master Trustee in accordance with the foregoing will continue until the first to occur of the following:

(a) no further rent is due or payable under the terms of the Lease;

(b) the Master Trustee gives the Lessee notice that the Lessor has rectified the default that existed in respect of its obligations under the terms of the Loan Documents and instructs the Lessee to make subsequent remittances of the rent to the Lessor; or

(c) a Transfer of the Premises occurs and the Purchaser gives the Lessee notice of that Transfer. The Purchaser will automatically succeed to the Lessor's interest under the terms of the Lease as provided in Sections 3 and 4 above, after which time the rents and other benefits accruing in favor of the Lessor under the terms of the Lease will be payable to the Purchaser as the owner of the Premises.

7. Limitation on Trustee to Perform. Nothing in this Agreement obligates the Master Trustee to perform any covenant made by the Lessor as Lessor in the Lease unless and until the Master Trustee obtains title to the Premises as Purchaser or takes possession of the Premises in accordance with the terms of the Mortgage, and then only during the time when the Master Trustee holds title to or possession of the Premises.

8. Lessee's Covenants. During the terms of the Lease, without the Master Trustee's prior written consent, the Lessee may not:

(a) pay to any Lessor (including the Lessor) any installment of rent or additional rent more than one month in advance of the time it becomes due under the terms of the Lease;

(b) cancel, terminate or surrender the Lease, except through the exercise of a right expressly accorded to Lessee in the Lease; or

(c) assign the Lease or sublet any portion of the Premises, except as expressly permitted, without the Lessor's consent in the Lease.

9. Notices of Default, Material Notices. The Lessee must send to the Master Trustee a copy of any notice of default or similar statement connected with the Lease at the same time that it sends that notice or statement to the Lessor. The Lessor must also send to the Master Trustee copies of all material notices that it gives to the Lessee in connection with the Lease. The Lessee and the Lessor will deliver those notices to the Master Trustee in the manner and at the addresses set forth below.

10. Limitation on Liability. Except as provided below, regardless of anything in the Lease or this Agreement apparently to the contrary, the Lessee may not seek to satisfy any judgment that the Lessee obtains by reason of the negligence of any Purchaser or any of its directors, officers, agents, employees or contractors or by reason of that Purchaser's failure to perform any of the obligations incumbent upon the Lessor under the terms of the Lease from any source other than that Purchaser's interest in the Premises and the revenue generated by the operation of the Premises. The Lessee may, however, satisfy any such

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change its address for the delivery of notices connected with this Agreement by delivering notice to all other parties in accordance with this Section.

To Master Trustee: U.S. Bank National Association
Two Liberty Place, Suite 2000
50 S. 16th Street
Philadelphia, PA 19102
Attn: Relationship Manager

To Lessor: DeMedici Corporation
2600 South Broad Street
Philadelphia, PA 19145
Attn: President

To Lessee: Philadelphia Performing Arts: A String Theory Charter School
2600 South Broad Street
Philadelphia, PA 19145
Attn: Chief Executive Officer

To the extent that the Lease shall entitle the Lessee to notice of any Mortgage, this Agreement shall constitute such notice to the Lessee with respect to the Mortgage and the Lessee hereby waives notice of any and all renewals, modifications, extensions, substitutions, replacements, and/or consolidations of the Mortgage.

15. Attorneys' Fees. If any lawsuit or arbitration arising out of or relating to this Agreement commences, the prevailing party is entitled to recover from each other party, in addition to costs and expenses otherwise allowed by law, such sums as the court or arbitrator may adjudge to be reasonable attorneys' fees in the action or arbitration, including the reasonable value of services rendered by in-house counsel.

16. Waiver of Jury Trial. TO THE EXTENT PERMITTED BY LAW, THE LESSOR, THE LESSEE AND THE MASTER TRUSTEE HEREBY JOINTLY AND SEVERALLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT. THE LESSOR, THE LESSEE AND THE MASTER TRUSTEE EACH REPRESENTS TO THE OTHER THAT THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY GIVEN.

17. Miscellaneous Provisions. This Agreement inures to the benefit of and binds the parties and their respective successors and assigns. This Agreement may be executed in counterparts for the convenience of the parties. Any provisions governing the rights, immunities and protections of the Master Trustee under the Loan Documents are incorporated by reference into this Agreement as being applied to the Master Trustee as through fully set forth herein. The laws of the state where the Premises are located, without regard to the choice of law rules of that state, will govern the interpretation and enforcement of this Agreement. As used in this Agreement, the word "include(s)" means "include(s), without limitation," and the word "including" means "including, without limitation."

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judgment by offsetting the amount of the judgment against rent becoming due under the terms of the Lease. The foregoing limitation on the sources of the Lessee's recovery will not apply in those instances (i) where proceeds of any insurance are available to satisfy such judgment, (ii) where the Lessee obtains such judgment because of the Purchaser's misapplication of funds that an insurer or a condemning authority pays to the Purchaser and that the Purchaser must use for restoration of the Premises in accordance with the terms of the Lease, (iii) where the Lessee obtains such judgment because of the Purchaser's misapplication of funds that the Lessee pays to the Purchaser for remittance to a third party, such as a taxing authority, or (iv) where the Lessee obtains the judgment because of the Purchaser's fraud. Except as expressly provided above, after application of the proceeds of any insurance that are available to satisfy a judgment that the Lessee obtains by reason of the negligence of any Purchaser or any of its directors, officers, agents, employees or contractors or by reason of that Purchaser's failure to perform any of the obligations incumbent upon the Lessor under the terms of the Lease, the Lessee may not seek to satisfy the balance of such judgment remaining after such application from any source other than that Purchaser's interest in the Premises and the revenue generated by the operation of the Premises. Nothing contained in this Section impairs, affects, lessens, abrogates or otherwise modifies the obligations of the Lessor to the Lessee under the terms of the Lease.

11. Master Trustee's Right to Cure Default. If any act or omission by the Lessor gives the Lessee the right to terminate the Lease or to claim a partial or total eviction, the Lessee may not exercise that right or make that claim until it has given the Master Trustee written notice of the occurrence of that act or omission and the Master Trustee has failed to rectify the condition giving rise to that right or that claim within (i) ten (10) business days, if the Master Trustee can accomplish the rectification by the mere payment of money, (ii) thirty (30) business days, if the Master Trustee cannot accomplish the rectification by the mere payment of money and the rectification does not require the Master Trustee to obtain possession of the Premises, and (iii) a reasonable time, if the Master Trustee cannot accomplish the rectification by the mere payment of money, the rectification requires the Master Trustee to obtain possession of the Premises, and the Master Trustee both commences efforts to obtain possession of the Premises and to rectify the condition within fifteen (15) business days after the delivery of the Lessee's written notice and diligently and continuously pursues those efforts. The foregoing does not obligate the Master Trustee to undertake the rectification of any default by the Lessor in respect of the performance of its obligations under the terms of the Lease and shall not limit the Master Trustee's right to exercise its rights or powers under this Agreement or any of the Loan Documents.

12. Termination of Agreement. If no Transfer of the Premises occurs, this Agreement becomes void upon payment in full of the indebtedness evidenced by the Series 2020 Bonds and the recordation of a reconveyance, release or satisfaction of the Mortgage.

13. Integration. This Agreement integrates all of the terms and conditions of the parties' agreement regarding the subordination of the Lease and the leasehold estate that it creates to the lien or charge of the Loan Documents. This Agreement supersedes and cancels all oral negotiations and all prior writings relating to that subordination including any provisions of the Lease that provide for the subordination of the Lease. The parties intend this Agreement as the final expression of their agreement relating to the subordination of the Lease to the operation and effect of the Loan Documents. The parties may amend this Agreement only by means of a written agreement that the parties or their respective successors in interest sign.

14. Notices. All notices connected with this Agreement must be in writing and the parties must deliver those notices by means of messenger service, Federal Express overnight delivery service, or by registered or certified United States mail, postage prepaid, sent to the recipient at its address specified below. Notices will be effective upon receipt or when the recipient refuses proper delivery. Any party may

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IN WITNESS WHEREOF, the parties have executed this Subordination, Non-Disturbance and Attornment Agreement on the day and year first above written.

DEMEDICI CORPORATION, a Pennsylvania nonprofit corporation

By: _____
Name: Javier Kuehnle
Its President of the Board of Trustees

(Signature page to Subordination, Non-Disturbance and Attornment Agreement
re Philadelphia Performing Arts: A String Theory Charter School)

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COMMONWEALTH OF PENNSYLVANIA
COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of December, 2020, by Javier Kuehnle, as President of the Board of Trustees of DeMedici Corporation, a Pennsylvania nonprofit corporation, on behalf of the corporation. He is personally known to me or Javier Kuehnle produced a valid driver's license as identification.

Notary Public; State of _____
Print Name: _____
My Commission Expires: _____
My Commission No.: _____

PHILADELPHIA PERFORMING ARTS: A
STRING THEORY CHARTER SCHOOL, a
Pennsylvania nonprofit corporation

By: _____
Name: Javier Kuehnle
Its: President of the Board of Trustees

(Signature page to Subordination, Non-Disturbance and Attornment Agreement
re Philadelphia Performing Arts: A String Theory Charter School)

(Signature page to Subordination, Non-Disturbance and Attornment Agreement
re Philadelphia Performing Arts: A String Theory Charter School)

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COMMONWEALTH OF PENNSYLVANIA
COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of December, 2020, by Javier Kuehnle, as President of the Board of Trustees of Philadelphia Performing Arts: A String Theory Charter School, a Pennsylvania nonprofit corporation, on behalf of the corporation. He is personally known to me or Javier Kuehnle produced a valid driver's license as identification.

Notary Public; State of _____
Print Name: _____
My Commission Expires: _____
My Commission No.: _____

U.S. BANK NATIONAL ASSOCIATION, a national
banking association

By: _____
Name: Michael Judge
Its: Vice President

(Signature page to Subordination, Non-Disturbance and Attornment Agreement
re Philadelphia Performing Arts: A String Theory Charter School)

(Signature page to Subordination, Non-Disturbance and Attornment Agreement
re Philadelphia Performing Arts: A String Theory Charter School)

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The foregoing instrument was acknowledged before me this _____ day of December, 2020, by Michael Judge, as a Vice President of U.S. Bank National Association, a national banking association, on behalf of the association. He is personally known to me or Michael Judge produced a valid driver's license as identification.

Notary Public; State of _____
Print Name: _____
My Commission Expires: _____
My Commission No.: _____

(Signature page to Subordination, Non-Disturbance and Attornment Agreement
re Philadelphia Performing Arts: A String Theory Charter School)

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with Broad Street 64 feet 6-inches to a point on the Southerly side of Shunk Street; thence extending Eastwardly along the Southerly side of Shunk Street 84 feet to the first mentioned point and place of beginning.

BEING known as 2632 South Broad Street.

BEING Parcel #88-3-5371-00.

TOGETHER with all rights, title and interest which the within Grantor now has in the aforesaid alleys as and for passageways and watercourses forever.

EXCEPTING THEREOUT AND THEREFROM:

ALL THAT CERTAIN lot or piece of ground with the buildings and improvements thereon erected.

SITUATE in the 26th Ward of the City of Philadelphia described according to a Survey and Plan of Property made for South Philadelphia Boys Club by John Stefanco, Surveyor and Regulator of the 2nd District dated 3/29/1972, to wit:

BEGINNING at a point formed by the intersection formerly the Westerly side of Broad Street (113 feet wide) and the Southerly side of Shunk Street (60 feet wide); thence extending Southwestwardly along the said Westerly side of Broad Street the distance of 166 feet 7-3/8 inches to a point; thence Northwestwardly on a line parallel with the said Shunk Street along a proposed subdivision line 82 feet 0 inches to a point on the center line of a 4 feet wide alley which leads Northeastwardly and Southwestwardly connecting at the Northerly end with a 3 feet wide alley which leads Southeastwardly from Rosewood Street (30 feet wide) and said 4 feet wide alley connects at its Southerly end with another 3 feet wide alley which leads Southeastwardly from said Rosewood Street; thence Northeastwardly along the center line of said 4 feet wide alley on a line parallel with said Broad Street 102 feet 1-3/8 inches to a point on the center line of said lot mentioned 3 feet wide alley; thence Northwestwardly along the center line of said 1st mentioned 3 feet wide alley and on a line parallel with said Shunk Street 2 feet 0 inches to a point; thence Northeastwardly on a line parallel with said Broad Street partly crossing said 1st mentioned 3 feet wide alley and passing through a wall 64 feet 6 inches to a point on the said Southerly side of Shunk Street; thence Southeastwardly along the said Southerly side of Shunk Street 84 feet 0 inches to a point on the said Westerly side of Broad Street being the first mentioned point and place of beginning.

ALL THAT CERTAIN lot or piece of ground with the buildings and improvements thereon erected.

SITUATE in the 26th Ward of the City of Philadelphia described according to a Survey and Plan of Property made for South Philadelphia Boys Club by John Stefanco, Surveyor and Regulator of the 2nd District dated 3/29/1972, to wit:

BEGINNING at a point formed by the intersection formed by the Westerly side of Broad Street (113 feet wide) and the Southerly side of Shunk Street (60 feet wide); thence extending Southwestwardly along the said Westerly side of Broad Street the distance of 166 feet 7.375 inches to a point; thence Northwestwardly on a line parallel with said Shunk Street along a subdivision line 82 feet 0 inches to a point on the center line of a 4 feet wide alley which leads Northeastwardly and Southwestwardly connecting at the Northerly end with a 3 feet wide alley which leads Southeastwardly from Rosewood Street (30 feet wide) and said 4 feet wide alley connects at its Southerly end with another 3 feet wide alley which leads Southeastwardly from said Rosewood Street; thence Northeastwardly along the center line of said 4 feet wide alley on a line parallel with said Broad Street 102 feet 1.375 inches to a point on the center line of said first mentioned 3 feet wide alley; thence Northwestwardly along the center line of said first mentioned 3 feet wide alley and on a line parallel with said Shunk Street 2 feet 0 inches to a point; thence Northeastwardly on a line parallel with said Broad Street partly crossing said first mentioned 3 feet wide alley and passing through a wall 64 feet 6 inches to a point on the said Southerly side of Shunk Street; thence Southeastwardly along the said Southerly side of Shunk Street 84 feet 0 inches to a point on the said Westerly side of Broad Street being the first mentioned point and place of beginning.

BEING known as 2600-30 South Broad Street.

BEING Parcel #77-3-6840-00.

ALL THAT CERTAIN lot or piece of ground with the buildings and improvements thereon erected, situate in the 26th Ward of the City of Philadelphia and described according to a Plan thereof made by Ben H. Joseph, Surveyor and Regulator of the 3rd District dated 6/27/1946, as follows, to-wit:

BEGINNING at a point formed by the intersection of the Westerly side of Broad Street (113 feet wide) and the Southerly side of Shunk Street (60 feet wide); thence extending Southwardly along the Westerly side of Broad Street 266 feet 7-3/8-inches to a point where said line intersects the Northerly side of Moyamensing Avenue; thence in a Southwesterly direction along the Northerly side of Moyamensing Avenue 161 feet 11-3/8 inches to a point where said line intersects the Easterly side of Rosewood Street (30 feet wide); thence extending in a Northeasterly direction along the Easterly side of Rosewood Street 70 feet 8-3/8 inches to a point in the center line of a 3 feet wide alley which extends Westerly into Rosewood Street; thence leaving Rosewood Street and along the center line of said 3 feet wide alley Eastwardly and parallel with Shunk Street 48 feet to a point in the center line of a 4 feet wide alley which extends Northwardly and Southwardly and communicates at the Southerly end thereof with the 3 feet wide alley hereinabove mentioned and at its Northerly end with a certain other 3 feet wide alley which extends Westerly into Rosewood Street; thence in a Northeasterly direction along the center line of said 4 feet wide alley and on a line parallel with Broad Street 228 feet to a point in the center line of the second above mentioned 3 feet wide alley; thence in a Westerly direction along the center line of said 3 feet wide alley and parallel with Shunk Street 2 feet to a point; thence leaving said alley and Northerly along a line parallel

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APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

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FORM OF BOND COUNSEL OPINION

December 11, 2020

Philadelphia Authority for Industrial Development
1500 Market Street - Suite 3500 West
Philadelphia, PA 19102

Truist Securities, Inc.
310 Grant Street, Suite 1600
Pittsburgh, PA 15219

U.S. Bank National Association, as Bond Trustee
Two Liberty Place
50 S. 16th Street, Suite 2000
Philadelphia, PA 19102

Re: \$52,405,000 Philadelphia Authority for Industrial Development Charter School Revenue Bonds
(Philadelphia Performing Arts: A String Theory Charter School Project) Series 2020

Ladies and Gentlemen:

We have acted as Bond Counsel to the Philadelphia Authority for Industrial Development (the “Issuer”) in connection with the issuance of the above-captioned bonds (the “Series 2020 Bonds”). The Series 2020 Bonds are issued under and pursuant to the provisions of the Economic Development Financing Law, the Act of August 23, 1967, P.L. 251, as amended (the “Act”), and an Indenture of Trust dated as of December 1, 2020 (the “Bond Indenture”), by and between the Issuer and U.S. Bank National Association, as bond trustee (the “Bond Trustee”). Capitalized terms used but not defined herein have the meanings ascribed to such terms in the Bond Indenture.

The Issuer is issuing the Series 2020 Bonds at the request of DeMedici Corporation (“DeMedici”) and DeMedici Corporation II (“DeMedici II” and, together with DeMedici, the “Borrowers”) to provide funds which will be used, together with other available funds, to finance the costs of a project (the “2020 Project”) that consists of the (a) refunding of the Issuer’s Revenue Bonds (Philadelphia Performing Arts Charter School Project), Series of 2013, issued in the original aggregate principal amount of \$55,500,000 and currently outstanding in the principal amount of \$51,940,000, the proceeds of which were used to finance school facilities located at (i) 2600-30 South Broad Street, Philadelphia, PA; (ii) 2407 Broad Street, Philadelphia, PA, 1338-42 Ritner Street, Philadelphia, PA and 2419-37 South Broad Street, Philadelphia, PA; and (iii) 1600 Vine Street, Philadelphia, PA (collectively, the “2013 Facilities”); (b) financing the payment of, or reimbursement to the Borrowers for, the acquisition, construction, renovation and equipping of school facilities and other buildings located at 2632 South Broad Street, Philadelphia, PA 19145 (the “2632 Broad Street Facility”, and together with the 2013 Facilities, the “Facilities”) to expand capacity for the operations of Philadelphia Performing Arts: A String Theory Charter School (the “Corporation”), a public charter school duly organized and validly existing under the Pennsylvania Charter School Law (24 P.S. §17-1701-A, et seq.) for use in its school operations; (c) funding a debt service reserve fund for the Series 2020 Bonds; and (d) paying all or a portion of the costs of issuance relating to the Series 2020 Bonds.

Concurrently with the issuance of the Series 2020 Bonds, the Issuer and the Borrowers are entering into a Loan Agreement dated as of December 1, 2020 (the “Loan Agreement”), providing for the loan of the proceeds of the Series 2020 Bonds to the Borrowers to pay certain costs of the 2020 Project. Under the Loan Agreement, the Borrowers are obligated to make loan payments in the amounts and at the

times necessary to pay, when due, the principal of, premium, if any, and interest on the Series 2020 Bonds. Under the Bond Indenture, the Issuer has assigned certain of its rights and interests under the Loan Agreement, including its right to receive the payments under the Loan Agreement in respect of the Series 2020 Bonds, to the Bond Trustee for the benefit of the holders of the Series 2020 Bonds.

The Corporation currently leases the 2013 Facilities from the Borrowers under two separate lease agreements and upon the issuance of the Series 2020 Bonds, DeMedici will use a portion of the proceeds of the Series 2020 Bonds to acquire, or refinance the purchase of, the 2632 Broad Street Facility, the Corporation's existing lease of the 2013 Facilities will terminate and the Borrowers and the Corporation will enter into two separate Lease Agreements for the Facilities, each dated as of December 1, 2020 (collectively, the "Leases").

Each of the Borrowers and the Corporation has represented that it has been determined to be and is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code") by virtue of being an organization described in Section 501(c)(3) of the Code. Each of the Borrowers and the Corporation is not a "private foundation" as defined in Section 509(a) of the Code and neither the Borrowers nor the Corporation has taken any action to impair its status as an exempt organization. In the Loan Agreement and the Leases, respectively, each of the Borrowers and the Corporation has covenanted that, throughout the term of each respective agreement, it will not carry on or permit to be carried on in the Facilities or any other property now or hereafter owned by it any trade or business the conduct of which would cause the interest on the Series 2020 Bonds to be included in the gross income of the holders thereof for purposes of federal income taxation.

Under the Bond Indenture, the Loan Agreement and the Leases, respectively, the Issuer, the Borrowers and the Corporation have covenanted that they will comply with the requirements of Section 148 of the Code pertaining to arbitrage bonds. In addition, an officer of the Issuer responsible for issuing the Series 2020 Bonds, an authorized officer of each Borrower and an authorized officer of the Corporation have executed certificates stating the reasonable expectations of the Issuer, the Borrowers and the Corporation on the date of issue of the Series 2020 Bonds as to future events that are material for the purposes of such requirements of the Code. The Issuer also has delivered to us for filing with the Internal Revenue Service a report of the issuance of the Series 2020 Bonds as required by the Code as a condition of the exclusion from gross income of the interest on the Series 2020 Bonds for federal income tax purposes.

In our capacity as bond counsel we have examined such documents, records of the Issuer and other instruments as we deemed necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Bond Indenture, the Loan Agreement, the Leases and the other documents listed in the closing index in respect of the Series 2020 Bonds filed with the Bond Trustee. We also assume that the Bond Indenture and the Loan Agreement have been duly authorized, executed and delivered by, and are valid and binding obligations of, the parties thereto other than the Issuer. We also have examined an executed Series 2020 Bond, authenticated by the Bond Trustee, and have assumed that all other Series 2020 Bonds have been similarly executed and authenticated.

In rendering the foregoing opinions, we have relied upon and assumed the accuracy of the opinions, dated this date, of counsel to the Borrowers and the Corporation, including in connection with the status of the Borrowers and the Corporation as 501(c)(3) organizations.

Based on the foregoing, it is our opinion that:

1. The Issuer is a body corporate and politic validly existing under the laws of the Commonwealth of Pennsylvania, with full power and authority under the Act to undertake the financing of the 2020 Project, to execute, deliver and perform its obligations under the Bond Indenture and the Loan Agreement, and to issue and sell the Series 2020 Bonds.

2. The Bond Indenture and the Loan Agreement have been duly authorized, executed and delivered by the Issuer and constitute legal, valid and binding obligations of the Issuer enforceable against the Issuer in accordance with their respective terms, except as the rights created thereunder and the enforcement thereof may be limited by bankruptcy, insolvency or other laws or equitable principles affecting the enforcement of creditors' rights generally.

3. The issuance and sale of the Series 2020 Bonds have been duly authorized by the Issuer. On the assumption as to execution and authentication stated above, the Series 2020 Bonds have been duly executed and delivered by the Issuer and are legal, valid and binding limited obligations of the Issuer enforceable against the Issuer in accordance with their terms and entitled to the benefit and security of the Bond Indenture, except as the rights created thereunder and enforcement thereof may be limited by bankruptcy, insolvency or other laws or equitable principles affecting the enforcement of creditors' rights generally.

4. Under the laws of the Commonwealth of Pennsylvania as presently enacted and construed, interest on the Series 2020 Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax.

5. Interest on the Series 2020 Bonds is excludable from gross income for purposes of federal income tax under existing laws as enacted and construed on the date of initial delivery of the Series 2020 Bonds, assuming the accuracy of the certifications of the Issuer, the Borrowers and the Corporation and continuing compliance by the Issuer, the Borrowers and the Corporation with the requirements of the Code. Interest on the Series 2020 Bonds is not an item of tax preference for purposes of federal alternative minimum tax. We express no opinion regarding other federal tax consequences relating to ownership or disposition of, or the accrual or receipt of interest on, the Series 2020 Bonds.

We have not been engaged to express and do not express any opinion herein with respect to the adequacy of the security for the Series 2020 Bonds or the sources of payment for the Series 2020 Bonds or with respect to the accuracy or completeness of any offering document or other information pertaining to the offering for sale of the Series 2020 Bonds or as to any other matter not set forth herein.

We call your attention to the fact that the Series 2020 Bonds are limited obligations of the Issuer payable only out of payments to be made by the Borrowers pursuant to the Loan Agreement and certain other moneys available therefor, and that the Series 2020 Bonds do not pledge the credit or taxing power of the Commonwealth of Pennsylvania or any political subdivision thereof. The Issuer has no taxing power.

Very truly yours,

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APPENDIX G

SUBSTANTIALLY FINAL FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This CONTINUING DISCLOSURE AGREEMENT dated as of December 1, 2020 (the "Disclosure Agreement"), is executed and delivered by and among DEMEDICI CORPORATION, a Pennsylvania nonprofit corporation ("DeMedici"), on its own behalf and on behalf of the Members of the Obligated Group as the Obligated Group Representative (each as defined herein), PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL, a Pennsylvania nonprofit corporation (the "Corporation") and DIGITAL ASSURANCE CERTIFICATION, LLC, as dissemination agent (the "Dissemination Agent"), in connection with the issuance by the Philadelphia Authority for Industrial Development (the "Authority") of its Philadelphia Authority for Industrial Development Charter School Revenue Bonds (Philadelphia Performing Arts: A String Theory Charter School Project) Series 2020 in the aggregate principal amount of \$52,405,000 (the "Series 2020 Bonds"). The Series 2020 Bonds are being issued pursuant to an Indenture of Trust dated as of December 1, 2020 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Bond Trustee"). Capitalized terms used but not otherwise defined herein shall have the meanings assigned thereto in the Indenture, the Agreement, the Leases (as defined below), or the Master Indenture (as defined below). The Dissemination Agent, DeMedici, and the Corporation covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by DeMedici, the Corporation, and the Dissemination Agent for the benefit of the Registered Owners and Beneficial Owners of the Series 2020 Bonds and in order to assist Truist Securities, Inc. (the "Underwriter") in complying with the Rule (as defined below), as it may be applicable from time to time. DeMedici, the Corporation, and the Dissemination Agent acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any Person, including any Registered Owner or Beneficial Owner of the Series 2020 Bonds, with respect to the Rule (as defined below).

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

"Agreement" means the Loan Agreement dated as of December 1, 2020, by and between the Authority and the Borrowers.

"Annual Financial Information" means annual financial information as such term is used in paragraph (i) of the Rule and specified in Section 4(b) of this Disclosure Agreement.

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

"Audited Financial Statements" means the audited financial statements and other financial information of the Corporation and each Member for the prior Fiscal Year, certified by an independent auditor as prepared in accordance with accounting principles generally accepted

in the United States or otherwise, as such term is used in paragraph (i) of the Rule and specified in Section 4(a) of this Disclosure Agreement.

"Beneficial Owner" shall mean any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2020 Bonds (including any Person holding Series 2020 Bonds through nominees, depositories or other intermediaries).

"Borrowers" means, collectively, DeMedici and DeMedici II (each, a "Borrower").

"DeMedici II" means DeMedici Corporation II, a Pennsylvania nonprofit corporation.

"Disclosure Representative" shall mean, with respect to the Corporation, the President, any Vice President, or the Secretary thereof, or such other person as the Corporation shall designate in writing to the Dissemination Agent from time to time, and with respect to DeMedici, the Borrowers' Administrative Agent, or such other person as DeMedici shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean Digital Assurance Certification, LLC, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by DeMedici and the Corporation and which has filed with the Bond Trustee, DeMedici, and the Corporation a written acceptance of such designation.

"EMMA" means the Electronic Municipal Market Access system for municipal securities disclosure established by the MSRB and accessible at <http://emma.msrb.org/> or at such other information depository as may be designated by the SEC from time to time to receive final official statements, material event notices and annual financial information under the Rule.

"Fiscal Year" means each fiscal year of each Member and the Corporation ending on or after June 30, beginning with the Fiscal Year ending June 30, 2020.

"Leases" means, collectively, (i) the Lease Agreement, dated as of December 1, 2020, by and between DeMedici and the Corporation and (ii) the Lease Agreement, dated as of December 1, 2020, by and between DeMedici II and the Corporation (each, a "Lease").

"Limited Offering Memorandum" shall mean the Limited Offering Memorandum, dated November 19, 2020, relating to the Series 2020 Bonds.

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

"Master Indenture" means the Master Trust Indenture dated as of December 1, 2020 (the "Original Master Indenture"), as supplemented by a Supplemental Master Trust Indenture No. 1 dated as of December 1, 2020 (the "Supplemental Master Indenture") and as further amended or supplemented, among the Members and the Master Trustee.

"Master Trustee" means U.S. Bank National Association, as master trustee under the Master Indenture.

"Member" means each of the Members of the Obligated Group under the Master Indenture. As of the date hereof, the Borrowers are the Members.

"MSRB" means the United States Municipal Securities Rulemaking Board or any successor to its functions, or any successor to its functions as a nationally recognized municipal securities information repository.

"Obligated Group Representative" means DeMedici or such other Member (or Members acting jointly) as may be designated from time to time to act as Obligated Group Representative under the Master Indenture pursuant to written notice to the Master Trustee executed by all of the Members.

"Quarterly Report" shall mean any Quarterly Report provided by DeMedici, DeMedici II, and the Corporation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Commonwealth" shall mean the Commonwealth of Pennsylvania.

"Underwriter" shall mean Truist Securities, Inc.

SECTION 3. Provision of Annual Reports, Quarterly Reports and Operations Reports.

(a) DeMedici and the Corporation shall or, upon delivery to the Dissemination Agent pursuant to paragraph (b) below, the Dissemination Agent shall, not later than December 31 following the end of the preceding Fiscal Year, commencing with the report for the Fiscal Year ended June 30, 2020, provide to EMMA, in a PDF or other electronic format as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the Audited Financial Statements may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year changes, DeMedici or the Corporation shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

(b) Not later than five (5) Business Days prior to the date specified in subsection (a) for providing the Annual Report to EMMA, DeMedici and the Corporation shall provide the Annual Report to the Dissemination Agent, which shall be accompanied by a written representation addressed to the Dissemination Agent to the effect that such submission is the Annual Report required by this Disclosure Agreement and that such submission complies with the applicable requirements of this Disclosure Agreement, and which shall include the CUSIP numbers of the Series 2020 Bonds. Promptly upon receipt of the Annual Report from DeMedici and the Corporation, the Dissemination Agent shall provide the Annual Report to the MSRB. The Dissemination Agent shall not be responsible in any manner for the content of any notice or

report prepared by DeMedici and the Corporation pursuant to this Disclosure Agreement, and shall have no duty or obligation to review any notice or report. If by five (5) Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify DeMedici and the Corporation of the requirements of subsection (a) and this subsection (b).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(d) DeMedici and the Corporation, or upon delivery to the Dissemination Agent pursuant to paragraph (e) below, the Dissemination Agent, shall provide to EMMA not later than May 1, August 1, November 1, and February 1 following the end of each fiscal quarter for DeMedici and the Corporation ended March 31, June 30, September 30, and December 31, respectively, commencing with the report for the fiscal quarter ending December 31, 2020, a Quarterly Report which is consistent with the requirements of Section 4 of this Disclosure Agreement.

(e) Not later than five (5) Business Days prior to the dates specified in subsection (d) for providing the Quarterly Report to EMMA, DeMedici and the Corporation shall provide the Quarterly Report to the Dissemination Agent, which shall be accompanied by a written representation addressed to the Dissemination Agent to the effect that such submission is the Quarterly Report required by this Disclosure Agreement and that such submission complies with the applicable requirements of this Disclosure Agreement, and which shall include the CUSIP numbers of the Series 2020 Bonds. Promptly upon receipt of the Quarterly Report from DeMedici and the Corporation, the Dissemination Agent shall provide the Quarterly Report to the MSRB. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by DeMedici, DeMedici II, or the Corporation pursuant to this Disclosure Agreement, and shall have no duty or obligation to review any notice or report. If by five (5) Business Days prior to such date, the Dissemination Agent has not received a copy of the Quarterly Report, the Dissemination Agent shall notify DeMedici and the Corporation of the requirements of subsection (d) and this subsection (e).

(f) If the Dissemination Agent is unable to verify that a Quarterly Report has been provided to EMMA by the date required in subsection (d), the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(g) As soon as practicable or otherwise as stated herein, DeMedici and the Corporation, as detailed below, or upon delivery to the Dissemination Agent, the Dissemination Agent, shall provide to EMMA:

(1) the Corporation is to provide a copy of a preliminary annual budget for the Corporation for each Fiscal Year, commencing with the Fiscal Year ending June 30, 2022, prepared and delivered at least thirty (30) days prior to the start of each such Fiscal Year, and a copy of the final annual budget by August 15 of the applicable Fiscal Year;

(2) the Corporation is to provide a description of any expansion plans and changes in competitive landscape by July 1 of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2022;

(3) the Corporation is to provide a copy of the most recent report(s) on academic testing at the Corporation, within 30 days of their availability;

(4) the Corporation is to provide, immediately following receipt thereof, copies of any notices, reports or determinations from the Commonwealth or any School District which reflect any potential materially adverse effect on the Corporation's status as a qualified charter school under the laws of the Commonwealth;

(5) DeMedici is to provide, within 10 days of the earlier of the date thereof or receipt of notice thereof, any termination of the Catalyst Lease or the vacation of the premises by Catalyst (each as defined in the Limited Offering Memorandum);

(6) the Corporation is to provide, within 10 days of the earlier of the date thereof the receipt of notice thereof, any termination, expiration, of nonrenewal of the String Theory Agreements (as defined in the Limited Offering Memorandum) or any other Management Company contract;

(7) DeMedici and the Corporation, as applicable, are to provide a copy of any report provided to the Bond Trustee or the Master Trustee pursuant to (A) in the case of DeMedici, Section 8.12 of the Agreement or Section 7.11(d) of the Master Indenture or (B) in the case of the Corporation, Sections 10.08 or 10.09 of the Leases;

(8) DeMedici and the Corporation, as applicable, are to provide notice of the incurrence of any Indebtedness pursuant to (A) in the case of DeMedici, Section 4.2 of the Master Indenture or (B) in the case of the Corporation, Sections 10.12 of the Leases; and

(9) DeMedici, for each Member, is to: (A) as soon as practicable but in no event later than 181 days after the end of each of its Fiscal Years, file with the Master Trustee Audited Financial Statements of such Member as of the end of such Fiscal Year; (B) as soon as practicable but in no event later than 181 days after the end of each Fiscal Year, file with the Master Trustee an Officer's Certificate stating whether to the best knowledge of the signers the Member is in default in the performance of any covenant contained in this Master Indenture and, if so, specifying each such default of which the signers may have knowledge; and (C) if an Event of Default has occurred and is continuing, (i) file with the Master Trustee such other financial statements and information concerning the operations and financial affairs of the Member (or of any consolidated group of companies of which the Member is a member) as the Master Trustee may from time to time reasonably request, and (ii) provide access to the facilities of the

Member for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request.

If the Dissemination Agent shall not receive any such information required to be provided by Section 3(g)(3), (4), (5), (6), (7), (8), or (9)(C) above by the required date, the Dissemination Agent shall not be required to send a notice to EMMA regarding such failure.

(h) Within 30 days of its receipt or completion, DeMedici or the Corporation, or upon delivery to the Dissemination Agent, the Dissemination Agent shall provide to EMMA copies of any written reports or recommendations of any Consultant delivered pursuant to the Master Indenture, the Agreement or the Lease, as applicable.

(i) If DeMedici and the Corporation have provided the Annual Report or Quarterly Report, as applicable, to the Dissemination Agent, the Dissemination Agent shall confirm to DeMedici and the Corporation that the Annual Report or Quarterly Report, as applicable, has been provided to EMMA pursuant to this Disclosure Agreement and set forth the date it was provided.

(j) If the Dissemination Agent has been instructed by DeMedici or the Corporation to post a document or report to EMMA, the Dissemination Agent shall post the document or report to EMMA upon it being provided by such party.

SECTION 4. Content of Annual and Quarterly Reports.

(a) *Audited Financial Statements:* Each Annual Report shall contain Audited Financial Statements, as provided pursuant to Section 3(a). If Audited Financial Statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the Corporation's audited financial statements, and the Audited Financial Statements shall be filed in the same manner as the Annual Report when they become available. Audited or unaudited financial statements of a Member shall be delivered as provided herein only if otherwise prepared.

(b) *Additional Annual Report Information:* Each Annual Report shall also contain (i) commencing with the Annual Report for the Fiscal Year ending June 30, 2021, a copy of the audit report certified by independent public accountants, accompanied by calculations of the Debt Service Coverage Ratio for the Fiscal Year and the Days Cash on Hand as of June 30 of the Fiscal Year certified by the Corporation consistent with the requirements of Sections 10.08(a) and Sections 10.08(b) of the Leases and (ii) commencing with the Annual Report for the Fiscal Year ending June 30, 2022, in the case of the Corporation, actual enrollment and waiting list data for the current year, of the sort and in the format initially provided in the chart under the heading "THE SCHOOL – Enrollment – Projected Enrollment" for the 2020-21 school year in APPENDIX A – "CERTAIN INFORMATION CONCERNING THE BORROWER AND THE SCHOOL."

(c) *Quarterly Information:* Each Quarterly Report shall contain Quarterly Information with respect to each Member and the Corporation, including (i) unaudited financial

statements and other financial information of the Corporation and each Member, including, but not limited to, its balance sheet and its actual income and expenses as compared to the annual budget, (ii) in the case of the Corporation, a statement of the student enrollment by grade at the Corporation as of the close of such quarter or as of the end of the most recent academic year, as applicable, (iii) written notice of any changes in key personnel, and (iv) a certificate of a Disclosure Representative of DeMedici or the Corporation, as applicable, listing (A) any plans to expand the Corporation or the Corporation Campus, (B) plans to change any Member's or the Corporation's organizational structure, and (C) any existing and/or pending material litigation that has arisen since the last such certificate. Quarterly financial, operating and other information of a Member shall be delivered as provided herein only if otherwise prepared. If the financial information of DeMedici or DeMedici II is no longer reported as a component unit of the Corporation, the requirement in (c)(i) shall include the unaudited financial statements and other financial information of DeMedici or DeMedici II, as applicable, separately.

(d) *Notice of Charter Non-Compliance:* Unless previously disseminated, each Quarterly Report to be disseminated shall contain a copy or complete description of any notice, report or communication with respect to charter non-compliance that would allow the Corporation's charter authorizer to begin any process or proceedings toward charter revocation or which indicate an intent not to renew any such charter.

(e) *Inclusion by Reference:* The items listed above may be included by specific reference to other documents, including materials which have been submitted to EMMA or the SEC. DeMedici and the Corporation shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, DeMedici and the Corporation shall give, or upon delivery of the information to the Dissemination Agent, the Dissemination Agent shall give, notice of the occurrence of any of the following events under applicable federal securities laws in a timely manner not in excess of ten (10) Business Days after the occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) (A) Adverse tax opinions, (B) the issuance by the Internal Revenue Service of proposed or final determinations of taxability of the Series 2020

Bonds, (C) Notices of Proposed Issuer (IRS Form 5701-TEB), (D) other material notices or determinations with respect to the tax status of the Series 2020 Bonds, or (E) other material events affecting the tax-exempt status of the Series 2020 Bonds;

(7) Modifications to rights of Bondholders, if material;

(8) (i) Bond calls, if material, and (ii) tender offers;

(9) Defeasances;

(10) Release, substitution, or sale of property securing repayment of the Series 2020 Bonds, if material;

(11) Rating changes;

(12) Failure to provide an Annual or Quarterly Report as required under this Disclosure Agreement;

(13) Bankruptcy, insolvency, receivership or similar event of any Member or the Corporation, which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for such Member or the Corporation in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of any Member or the Corporation, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental entity having supervision or jurisdiction over substantially all of the assets or business of any Member or the Corporation;

(14) The consummation of a merger, consolidation, or acquisition involving any Member or the Corporation or the sale of all or substantially all of the assets of any Member or the Corporation, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(15) Appointment of a successor or additional trustee or the change of name of a trustee, if material;

(16) Incurrence by any Member or the Corporation of a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii), excluding municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official

statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule (each, a "Financial Obligation"), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of any Member or the Corporation, any of which affect security holders, if material; and

(17) Occurrence of a default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of any Member or the Corporation, any of which reflect financial difficulties.

(b) DeMedici and the Corporation agree that their determination of whether any event listed in subsection (a) above is material shall be made in accordance with federal securities law.

(c) DeMedici and the Corporation shall promptly notify the Dissemination Agent in writing of the occurrence of any of the Listed Events.

(d) If the Listed Event must be reported without regard to whether or not it is material under applicable federal securities laws, such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (g).

(e) If materiality is a condition precedent to the requirement that the Listed Event be reported, and DeMedici and the Corporation determine that knowledge of the occurrence of the Listed Event is material under applicable federal securities laws, such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (g).

(f) If materiality is a condition precedent to the requirement that the Listed Event be reported, and DeMedici and the Corporation determine that knowledge of the occurrence of the Listed Event is not material under applicable federal securities laws, such notice shall instruct the Dissemination Agent not to report the occurrence pursuant to subsection (g).

(g) If the Dissemination Agent has been instructed by DeMedici and the Corporation to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with EMMA.

SECTION 6. Termination of Reporting Obligation. DeMedici's, the Corporation's and the Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Series 2020 Bonds. If such termination occurs prior to the final maturity of the Series 2020 Bonds, the Borrowers and the Corporation shall give notice of such termination in the same manner as for a Listed Event under Section 5(g). If a Borrower's or the Corporation's obligations under the Agreement or the Leases, as applicable, are assumed in full by some other entity, such entity shall be responsible for compliance with this Disclosure Agreement relating thereto in the same manner as if it were such Borrower or the Corporation, as applicable, and such Borrower or the Corporation, as applicable, shall have no further responsibility hereunder with respect thereto.

The Dissemination Agent shall be fully discharged at the time any such termination is effective. Also, this Disclosure Agreement shall terminate automatically upon payment or provisions for payment of the Series 2020 Bonds. This Disclosure Agreement shall terminate when all of the Series 2020 Bonds are or are deemed to be no longer outstanding by reason of redemption or legal defeasance or at final maturity.

SECTION 7. Dissemination Agent. DeMedici and the Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without cause, and with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Digital Assurance Certification, LLC. The Dissemination Agent shall have no obligation to disclose information about the Series 2020 Bonds except as expressly provided herein. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with DeMedici, DeMedici II, or the Corporation, apart from the relationship created by the Rule, shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition except as may be provided by written notice from DeMedici or the Corporation. The Dissemination Agent may resign at any time by providing at least 30 days written notice to DeMedici, the Corporation, and the Bond Trustee.

SECTION 8. Investor Calls. On or about each February 15, commencing February 15, 2021, DeMedici and the Corporation shall host a conference call regarding performance of the Members and the Corporation for the Fiscal Year ended the preceding June 30 (the "Annual Call"). Notice of the Annual Call shall be posted to EMMA at least 30 days prior to the date of the Annual Call and the Annual Call shall be open to any interested parties.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, DeMedici, the Corporation and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by DeMedici and the Corporation, provided that the Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(d), 4 or 5(a), it may only be made (1) in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an "obligated person" (as defined in the Rule) with respect to the Series 2020 Bonds, or the type of business conducted, or (2) with the approval set forth in (c)(i) below;

(b) This Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Series 2020 Bonds after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Registered Owners of the Series 2020 Bonds in the same manner as provided in the Agreement for amendments to such Agreement with the consent of Registered Owners, or (ii) does not, in the opinion of Bond

Counsel, materially impair the interests of the Registered Owners or Beneficial Owners of the Series 2020 Bonds.

Notwithstanding the foregoing, this Disclosure Agreement may be amended by mutual agreement of DeMedici, the Corporation, and the Dissemination Agent without the conditions of this Section 9 (a), (b), and (c) having been met if the sole purpose of the amendment is to require that DeMedici and/or the Corporation provide disclosure in addition to the disclosure DeMedici and/or the Corporation are required to provide pursuant to this Disclosure Agreement prior to the effectiveness of any such amendment.

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

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

SECTION 11. Default. In the event of a failure of DeMedici and the Corporation or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the right of any Beneficial Owner to challenge the timely filing, failure to file or the adequacy of the information furnished pursuant to this Disclosure Agreement shall be limited to an action by any Beneficial Owner of the Series 2020 Bonds. Any failure by DeMedici and the Corporation to comply with the provisions of this Disclosure Agreement shall not be an Event of Default under the Master Indenture, the Agreement, or the Lease. In no event shall any violation of this Disclosure Agreement, by itself, constitute a violation of any other laws, including other applicable securities laws.

The Beneficial Owners' rights to enforce the provisions of this Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel DeMedici and the Corporation to perform under this Disclosure Agreement, and their directors, officers and employees shall incur no liability under this Disclosure Agreement by reason of any act or failure to act hereunder. Without limiting the generality of the foregoing, neither the

commencement nor the successful completion of an action to compel performance under this Section shall entitle any person to attorneys' fees, financial damages of any sort or any other relief other than an order or injunction compelling performance.

SECTION 12. Duties, Immunities and Liabilities of the Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and no further duties or responsibilities shall be implied. DeMedici and the Corporation agree to indemnify and save the Dissemination Agent and its 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 reasonable attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct or breach of this Disclosure Agreement. The Dissemination Agent shall be paid compensation by DeMedici and the Corporation for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the Borrowers and the Corporation from time to time. The Dissemination Agent shall have no duty or obligation to review or verify any information provided to it by the Borrowers and the Corporation hereunder and shall not be deemed to be acting in any fiduciary capacity for any Member, the Corporation, the Registered Owners, Beneficial Owners, the Underwriter, the Authority, the Master Trustee, the Bond Trustee, or any other party. The obligations of the Borrowers and the Corporation under this Section shall survive resignation or removal of the Dissemination Agent and defeasance, redemption or payment of the Series 2020 Bonds.

The Dissemination Agent shall not have any liability to any Registered Owner or Beneficial Owner in connection with any failure to timely file any such information or report with the MSRB and the sole remedy available shall be an action by any Registered Owner or Beneficial Owner in mandamus for specific performance or similar remedy to compel performance. The only remedy for failure to file is to file. Each of the Borrowers and the Corporation acknowledges that it, and not the Dissemination Agent, is solely responsible for the accuracy, completeness and timeliness of any information or report provided to the Dissemination Agent.

SECTION 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To DeMedici:	DeMedici Corporation c/o Philadelphia Performing Arts: A String Theory Charter School 2600 South Broad Street Philadelphia, PA 19145 Attention: Chairperson
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To the Corporation:	Philadelphia Performing Arts: A String Theory Charter School 2600 South Broad Street Philadelphia, PA 19145 Attention: Chairperson
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To the Bond Trustee: U.S. Bank National Association
Two Liberty Place, Suite 2000
50 S. 16th Street
Philadelphia, Pennsylvania 19102
Attention: Relationship Manager

To the Dissemination Agent: Digital Assurance Certification, LLC
315 East Robinson Street, Suite 300
Orlando, Florida 32801
Attention: DAC Support
Telephone: (407) 515-1100
Email: support@DACBond.com

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Bond Trustee, the Dissemination Agent, the Underwriter, Registered Owners and Beneficial Owners from time to time of the Series 2020 Bonds, and shall create no rights in any other person or entity.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 16. Severability. If any provision hereof shall be held invalid or unenforceable by a court of competent jurisdiction, the remaining provisions hereof shall survive and continue in full force and effect.

SECTION 17. Delivery to the MSRB. Any filings required to be made with the MSRB shall be made utilizing EMMA.

SECTION 18. Choice of Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the Commonwealth, provided that to the extent this Disclosure Agreement addresses matters of federal securities laws, including the Rule, this Disclosure Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

[Remainder of page intentionally left blank; signature page follows.]

Dated as of the date first written above.

DEMEDICI CORPORATION,

on its own behalf and on behalf of the Members
of the Obligated Group, as Obligated Group
Representative

By: _____

Name: Javier Kuehnle

Title: Board President

**PHILADELPHIA PERFORMING ARTS: A
STRING THEORY CHARTER SCHOOL**

By: _____

Name: Javier Kuehnle

Title: Board President

**DIGITAL ASSURANCE CERTIFICATION,
LLC,**

as Dissemination Agent

By: _____

Authorized Signatory

[Signature Page to Continuing Disclosure Agreement]

EXHIBIT A

NOTICE TO THE MSRB OF FAILURE TO FILE [ANNUAL/QUARTERLY] REPORT

Name of Issuer: Philadelphia Authority for Industrial Development

Name of Issue: Philadelphia Authority for Industrial Development
Charter School Revenue Bonds (Philadelphia
Performing Arts: A String Theory Charter School
Project) Series 2020

Name of Borrowers: DeMedici Corporation ("DeMedici") and DeMedici
Corporation II ("DeMedici II")

Name of Corporation: Philadelphia Performing Arts: A String Theory
Charter School

Date of Issuance: December 11, 2020

NOTICE IS HEREBY GIVEN that DeMedici and the Corporation have not provided an [Annual/Quarterly] Report with respect to the above-named Series 2020 Bonds as required by the Continuing Disclosure Agreement, dated as of December 1, 2020, among DeMedici, the Corporation, and the undersigned, with respect to the Series 2020 Bonds. DeMedici and the Corporation have notified the Dissemination Agent that they anticipate that the [Annual/Quarterly] Report will be filed by _____.

Dated: _____

DIGITAL ASSURANCE CERTIFICATION, LLC,
as Dissemination Agent

By: _____
Authorized Signatory

cc: DeMedici
Corporation

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APPENDIX H

BOOK-ENTRY-ONLY SYSTEM

The information in this appendix concerning The Depository Trust Company ("DTC") and DTC's book-entry-only system has been obtained from DTC. The Authority, the Borrowers, the Corporation, the Bond Trustee, the Master Trustee, and Underwriter take no responsibility for the accuracy thereof.

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

Purchases of Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2020 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2020 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2020 Bonds, except in the event that use of the book-entry system for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2020 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 Series 2020 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2020 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2020 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the certificate documents. For example, Beneficial Owners of Series 2020 Bonds may wish to ascertain that the nominee holding the Series 2020 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 the Series 2020 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Series 2020 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 detailed information from the Authority or the Registrar, 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 Series 2020 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Registrar, 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 the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2020 Bonds at any time by giving written notice to the Authority, the Borrowers, the Corporation and the Bond Trustee, and the Borrowers may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

The Authority, the Borrowers, the Corporation and the Underwriter will have no responsibility or obligation to any Securities Depository, any Participants in the Book-Entry System or the Beneficial Owners with respect to (i) the accuracy of any records maintained by the Securities Depository or any Participant; (ii) the payment by the Securities Depository or by any Participant of any amount due to any Beneficial Owner in respect of the principal amount or redemption price of, or interest on, any Series 2020 Bonds; (iii) the delivery of any notice by the Securities Depository or any Participant; (iv) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2020 Bonds; or (v) any other action taken by the Securities Depository or any Participant.

THE INFORMATION IN THIS APPENDIX CONCERNING DTC AND THE DTC BOOK-ENTRY SYSTEM HAS BEEN PROVIDED BY DTC. THE AUTHORITY, THE BORROWERS, THE CORPORATION, THE BOND TRUSTEE, THE MASTER TRUSTEE, AND THE UNDERWRITER BELIEVE SUCH INFORMATION TO BE RELIABLE, BUT TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NO REPRESENTATION IS MADE BY ANY SUCH PARTY AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.



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