

**NEW ISSUE – BOOK ENTRY ONLY**

**Rating: S&P Global Ratings: A+  
Outlook: Stable  
(See “RATING” herein)**

*In the opinion of Miles & Stockbridge P.C., Bond Counsel, assuming continuous compliance with certain covenants and agreements contained in the documents relating to the Series 2019 Bonds and subject to the exceptions under “Tax Matters” herein, interest on the Series 2019 Bonds is excludible from gross income for federal income tax purposes under existing laws, regulations, rulings and judicial decisions. Interest on the Series 2019 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the Series 2019 Bonds may, however, be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States of America. In the opinion of Bond Counsel, the principal of and interest on the Series 2019 Bonds, the transfer of the Series 2019 Bonds, and any income derived from the Series 2019 Bonds, including profits made in their sale or transfer, are exempt from state and local taxes in the State of Maryland, except that no opinion is expressed as to such exemption from estate or inheritance taxes, or any other taxes not levied directly on the principal of and interest on the Series 2019 Bonds, their transfer or the income derived therefrom. See “TAX MATTERS” herein.*



**MCDONOGH SCHOOL**

**\$15,500,000\***  
**MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY**  
**ECONOMIC DEVELOPMENT REVENUE BONDS**  
**(MCDONOGH SCHOOL FACILITY), SERIES 2019**

**Dated: Date of Initial Delivery**

**Due: September 1, as shown on the Inside Cover hereof**

The Maryland Industrial Development Financing Authority (the “Issuer”) is issuing its Economic Development Revenue Bonds (McDonogh School Facility) Series 2019 (the “Series 2019 Bonds”) pursuant to a Trust Indenture dated as of February 1, 2019 between the Issuer and Manufacturers and Traders Trust Company, as trustee (the “Trustee”). The Series 2019 Bonds will be limited obligations of the Issuer payable solely from payments by McDonogh School, Incorporated (the “Borrower”) pursuant to a Loan Agreement dated as of February 1, 2019 (the “Loan Agreement”) between the Issuer and the Borrower. Amounts payable by the Borrower under the Loan Agreement are secured by a pledge of the Receipts (defined herein) of the Borrower. See “SECURITY FOR THE SERIES 2019 BONDS” herein. The Series 2019 Bonds will be dated the date of issue, will be issued in the principal amounts, will mature on the dates, will bear interest from the date of issue, payable on each March 1 and September 1 commencing September 1, 2019 at the rates, and will be offered at the prices or yields, all as set forth on the inside of this cover page.

The proceeds of the Series 2019 Bonds, together with other moneys available therefor as described herein, will be used by the Borrower to (1) finance the costs of the construction of various capital improvements to the campus of the Borrower, as described herein, (2) refund the Issuer’s Economic Development Refunding Revenue Bonds (McDonogh School Facilities), Series 2013; and (3) pay costs of issuance of the Series 2019 Bonds and other related costs of the transaction eligible to be financed with the proceeds of the Series 2019 Bonds. See “PLAN OF FINANCE” herein.

The Series 2019 Bonds will be issued in fully registered form, registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Series 2019 Bonds. Individual purchases of beneficial ownership interests in the Series 2019 Bonds will be made in book-entry form only in denominations of \$5,000 and any integral multiple thereof and individual purchasers will not receive physical delivery of bond certificates. Payments of the principal of, and interest on, the Series 2019 Bonds will be made by the Trustee to Cede & Co., as nominee for DTC, for disbursement to DTC participants, and subsequent disbursement to the beneficial owners of the Series 2019 Bonds.

The Series 2019 Bonds will be subject to mandatory, extraordinary and optional redemption as described herein under “THE SERIES 2019 BONDS.”

THE SERIES 2019 BONDS, THE INTEREST THEREON AND THE REDEMPTION PRICE THEREOF ARE LIMITED OBLIGATIONS OF THE ISSUER. THE PRINCIPAL OF, THE INTEREST ON, AND THE REDEMPTION PRICE OF THE SERIES 2019 BONDS ARE PAYABLE SOLELY FROM THE REVENUES OR OTHER MONEYS MADE AVAILABLE TO THE ISSUER FOR SUCH PURPOSE. THE SERIES 2019 BONDS, THE INTEREST THEREON AND THE REDEMPTION PRICE THEREOF ARE NOT DEBTS OR CHARGES AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE STATE OF MARYLAND (THE “STATE”), THE MARYLAND DEPARTMENT OF COMMERCE (THE “DEPARTMENT”), THE ISSUER OR ANY OTHER PUBLIC BODY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR CHARTER PROVISION OR STATUTORY LIMITATION AND MAY NOT GIVE RISE TO ANY PECUNIARY LIABILITY OF THE STATE, THE DEPARTMENT, THE ISSUER, OR ANY OTHER PUBLIC BODY. THE SERIES 2019 BONDS ARE NOT A DEBT TO WHICH THE FAITH AND CREDIT OF THE STATE, THE DEPARTMENT, THE ISSUER, OR ANY OTHER PUBLIC BODY IS PLEDGED. THE ISSUER HAS NO TAXING POWER.

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

The Series 2019 Bonds are offered when, as, and if issued by the Issuer and received by George K. Baum & Company (the “Underwriter”), subject to the approval of their validity by Miles & Stockbridge P.C., Bond Counsel. Certain legal matters will be passed upon by Barbara Curnin Kountz, Esquire, Assistant Attorney General, as counsel to the Issuer; by DLA Piper LLP (US), Baltimore, Maryland, as counsel to the Borrower; and by Ballard Spahr LLP, Philadelphia, Pennsylvania, as counsel to the Underwriter. Delivery of the Series 2019 Bonds is expected in New York, New York, on or about February 21, 2019, through the facilities of DTC.

**George K. Baum & Company**

February \_\_, 2019

\* Preliminary, subject to change.

The information contained in this Preliminary Official Statement is subject to completion and amendment. The Series 2019 Bonds may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2019 Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

**\$15,500,000\***  
**MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY**  
**Economic Development Revenue Bonds**  
**(McDonogh School Facility), Series 2019**

**Maturity Schedule**

<b><u>Maturity</u></b> <b><u>(September 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount*</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>	<b><u>Price</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP No.</u></b> <b><u>(574221)**</u></b>
2019	\$ 595,000				
2020	630,000				
2021	705,000				
2022	735,000				
2023	775,000				
2024	815,000				
2025	855,000				
2026	900,000				
2027	945,000				
2028	995,000				
2029	65,000				
2030	70,000				
2031	75,000				
2032	80,000				
2033	80,000				
2034	85,000				
2035	90,000				
2036	95,000				
2037	100,000				
2038	105,000				
2039	110,000				
2040	115,000				
2041	1,600,000				
2042	1,600,000				
2043	1,600,000				
2044	310,000				
2045	320,000				
2046	335,000				
2047	350,000				
2048	365,000				
	<u>\$15,500,000</u>				

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\* Preliminary, subject to change.

\*\* The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the Issuer, the Borrower, or the Underwriter, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such issue or the use of secondary market financial products. Neither the Issuer, the Borrower, nor the Underwriter has agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

No broker, dealer, salesman or other person has been authorized by the Issuer, the Borrower or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Borrower or the Underwriter. The information contained in this Official Statement has been obtained from the Borrower and other sources believed by the Underwriter to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter or, as to information from sources other than the Issuer, by the Issuer, or, as to information from sources other than the Borrower, by the Borrower.

This Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2019 Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. This Official Statement is not to be construed as an agreement or contract between the Issuer and the purchasers or owners of any of the Series 2019 Bonds.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

*In making an investment decision, investors must rely on their own examination of the Issuer and the Borrower and the terms of the offering, including the merits and risks involved. The Series 2019 Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense.*

**THE SERIES 2019 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2019 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES IN WHICH THE SERIES 2019 BONDS HAVE BEEN QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2019 BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.**

Other than with respect to information concerning the Issuer contained under the caption “THE ISSUER” and “LITIGATION” herein, none of the information in this Official Statement has been supplied or verified by the Issuer, and the Issuer makes no representation or warranty, express or implied, as to the accuracy or completeness of such information.

The Trustee has not reviewed, or participated in, the preparation of this Official Statement.

ALL QUOTATIONS FROM AND SUMMARIES AND EXPLANATIONS OF PROVISIONS OF LAWS AND DOCUMENTS HEREIN DO NOT PURPORT TO BE COMPLETE, AND

REFERENCE IS MADE TO SUCH LAWS AND DOCUMENTS FOR FULL AND COMPLETE STATEMENTS OF THEIR PROVISIONS. ANY STATEMENTS MADE IN THIS OFFICIAL STATEMENT INVOLVING ESTIMATES OR MATTERS OF OPINION, WHETHER OR NOT EXPRESSLY SO STATED, ARE INTENDED MERELY AS ESTIMATES OR OPINIONS AND NOT AS REPRESENTATIONS OF FACT. THE INFORMATION AND EXPRESSIONS OF OPINIONS HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE OF THE SERIES 2019 BONDS SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE BORROWER.

Forward-Looking Statements. This Official Statement, and certain information contained in Appendix A under the caption “MANAGEMENT DISCUSSION”, contain statements relating to future results that are “forward looking statements” as defined in the Private Securities Litigation Reform Act of 1995, as amended. When used in this Official Statement (including without limitation, in Appendix A hereto), the words “estimate,” “forecast,” “intend,” “expect,” and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. These future risks and uncertainties include those discussed in this Official Statement under the heading “CERTAIN BONDHOLDERS’ RISKS”. Neither the Borrower nor any other party plans to issue any updates or revisions to those forward-looking statements if or when the expectations, or events, conditions or circumstances upon which such statements are based occur.

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## OFFICIAL STATEMENT

**\$15,500,000\***

### **MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY ECONOMIC DEVELOPMENT REVENUE BONDS (MCDONOGH SCHOOL FACILITY), SERIES 2019**

#### INTRODUCTORY STATEMENT

This Official Statement, including the cover page hereof and appendices hereto, is provided to furnish information regarding the \$15,500,000\* aggregate principal amount of Maryland Industrial Development Financing Authority Economic Development Revenue Bonds (McDonogh School Facility), Series 2019 (the “Series 2019 Bonds”). For the definitions of certain terms used herein but not defined, see “Definitions” in Appendix C.

The Series 2019 Bonds are being issued by the Issuer pursuant to (i) the Maryland Industrial Development Financing Authority Act, as amended (the “MIDFA Act”); (ii) the Maryland Economic Development Revenue Bond Act, as amended (the “Revenue Bond Act;” the MIDFA Act and the Revenue Bond Act are herein together referred to as the “Act”); (iii) the Resolution of the Issuer pertaining to the 2019 Facility adopted on November 16, 2018; and (iv) the Trust Indenture dated as of February 1, 2019 (the “Indenture”) between the Issuer and Manufacturers and Traders Trust Company, as trustee (the “Trustee”).

The Issuer will lend the proceeds of the Series 2019 Bonds (the “2019 Loan”) to McDonogh School, Incorporated, a not-for-profit corporation organized under the laws of the State of Maryland (the “Borrower”), pursuant to the Loan Agreement dated as of February 1, 2019 between the Issuer and the Borrower (the “Loan Agreement”). The Loan Agreement will require the Borrower to make payments sufficient to pay, among other things, to the Trustee, as assignee of the Issuer under the Indenture, the principal of and redemption premium, if any, and interest on, the Series 2019 Bonds when due. The proceeds of the Series 2019 Bonds will be used by the Borrower to (1) pay a portion of the costs of acquiring, constructing and equipping the 2019 Facility (defined herein); (2) refund the Issuer’s Economic Development Refunding Revenue Bonds (McDonogh School Facilities), Series 2013 (the “Series 2013 Bonds”); and (3) pay costs of issuance of the Series 2019 Bonds and other related costs of the transaction eligible to be financed with the proceeds of the Series 2019 Bonds. See “PLAN OF FINANCE,” “THE 2019 FACILITY” AND “ESTIMATED SOURCES AND USES OF FUNDS” herein.

**THE SERIES 2019 BONDS, THE INTEREST THEREON AND THE REDEMPTION PRICE THEREOF ARE LIMITED OBLIGATIONS OF THE ISSUER. THE PRINCIPAL OF, THE INTEREST ON, AND THE REDEMPTION PRICE OF THE SERIES 2019 BONDS ARE PAYABLE SOLELY FROM THE REVENUES OR OTHER MONEYS MADE AVAILABLE TO THE ISSUER FOR SUCH PURPOSE. THE SERIES 2019 BONDS, THE INTEREST THEREON AND THE REDEMPTION PRICE THEREOF ARE NOT DEBTS OR CHARGES AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE STATE OF MARYLAND (THE “STATE”), THE MARYLAND DEPARTMENT OF COMMERCE (THE “DEPARTMENT”), THE ISSUER OR ANY OTHER PUBLIC BODY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR CHARTER PROVISION OR STATUTORY LIMITATION AND MAY NOT GIVE RISE TO ANY PECUNIARY LIABILITY OF THE STATE, THE DEPARTMENT, THE ISSUER, OR ANY OTHER PUBLIC BODY. THE SERIES 2019 BONDS ARE NOT A DEBT TO WHICH THE FAITH AND CREDIT OF THE STATE, THE DEPARTMENT, THE**

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\* Preliminary, subject to change.

**ISSUER, OR ANY OTHER PUBLIC BODY IS PLEDGED. THE ISSUER HAS NO TAXING POWER.**

The Series 2019 Bonds will be payable from, and secured by, in addition to the security described below, a pledge of Revenues (hereinafter defined) to be derived pursuant to the Loan Agreement. In addition, the Series 2019 Bonds will be secured by the Receipts (hereinafter defined) of the Borrower, pursuant to the terms of the Collateral Agency Agreement (hereinafter defined). *See* “SECURITY FOR THE SERIES 2019 BONDS – Collateral Agency and Security Agreement” herein.

Pursuant to the Indenture, the Issuer will assign to the Trustee all of its right, title and interest in and to, and remedies under, the Loan Agreement, except for certain rights of the Issuer to notice, consent, payment of fees, reimbursement and indemnification, as described in the Indenture (the “Reserved Rights of the Issuer”). *See* “SECURITY FOR THE SERIES 2019 BONDS” herein.

Payment of the Series 2019 Bonds is dependent on revenues generated by the Borrower from operation of the School (hereinafter defined) and on capital campaign pledges and gifts made to the Borrower. A description of certain risks affecting the generation of such revenues and pledges is set forth in “CERTAIN BONDHOLDERS’ RISKS” herein.

The Borrower will undertake in a Continuing Disclosure Agreement to provide certain limited annual financial information and material event notices. *See* “CONTINUING DISCLOSURE” herein.

Appendix A to this Official Statement contains detailed information regarding the Borrower. Detailed information concerning the financial operations of the Borrower is set forth in the financial statements attached hereto as Appendix B. Definitions of certain terms and summaries of certain documents relating to the Series 2019 Bonds are set forth in Appendix C. The proposed form of opinion of Bond Counsel is attached hereto as Appendix D. The proposed form of the Continuing Disclosure Agreement is attached hereto as Appendix E.

**PLAN OF FINANCE**

The proceeds of the Series 2019 Bonds, together with other available funds will be used by the Borrower to (1) pay the costs of acquiring, constructing and equipping various capital improvements (collectively, the “2019 Facility”), as described below; (2) refund the Series 2013 Bonds; and (3) pay costs of issuance of the Series 2019 Bonds and other related costs of the transaction eligible to be financed with the proceeds of the Series 2019 Bonds. Pursuant to the Loan Agreement, the Issuer will lend the proceeds of the Series 2019 Bonds to the Borrower by depositing such proceeds with the Trustee as provided in the Indenture. *See* “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The Series 2013 Bonds, which were issued in the original aggregate principal amount of \$11,800,000 and had a remaining principal balance of \$8,288,050.69 as of February 5, 2019, will be redeemed in full on the date of issuance of the Series 2019 Bonds.

**THE ISSUER**

The Maryland Industrial Development Financing Authority is a body politic and corporate and an instrumentality of the State of Maryland, created pursuant to the MIDFA Act. The Issuer issues bonds pursuant to the Act, and is authorized to issue the Series 2019 Bonds to finance a portion of the costs of the 2019 Facility and to refund the Series 2013 Bonds.



The Series 2019 Bonds constitute limited obligations of the Issuer as described under “LIMITED OBLIGATIONS OF ISSUER; STATE NOT LIABLE ON BONDS.”

### **THE BORROWER**

The Borrower operates a coeducational, day and boarding college preparatory school (the “School”), which currently enrolls 1,399 students from pre-kindergarten through 12th grade. The Borrower employs the equivalent of 190 full-time faculty members, 23% of whom live on campus and approximately 60% of whom hold advanced degrees. The average teaching tenure is 14.9 years, and the student-teacher ratio is 7:1. Founded in 1873, the Campus of the Borrower is situated on nearly 800 pastoral acres in suburban Owings Mills, Maryland, and is located approximately 20 minutes from downtown Baltimore and approximately 50 minutes from Washington, D.C.

A description of the Borrower and the School (prepared by the Borrower) is attached hereto as Appendix A.

### **THE 2019 FACILITY**

The 2019 Facility, which will be located on the approximately 800-acre campus of the Borrower in Owings Mills, Maryland (the “Campus”) (*See* Appendix A – “LOCATION AND FACILITIES”), will consist of all or a portion of various capital improvements, including (a) construction of an instructional building or other improvements containing approximately 7,500 square feet known as the Fader Innovation Center; (b) construction of 38 housing units and related site improvements for faculty and staff containing approximately 90,000 square feet in the aggregate; (c) architecture and engineering costs related to the design of an instructional building containing approximately 60,000 square feet to be used as a middle school; (d) renovation of the athletic center; (e) renovation of the upper school library; (f) construction of a new residence for the Head of School consisting of approximately 4,900 square feet and the related construction of a new water line; (g) purchase and installment of machinery and equipment to increase the capacity of the power plant and piping to accommodate additional buildings on the Campus; (h) miscellaneous renovations to various improvements on the Campus, including, but not limited to, roofs, gutters, sidewalks, dormitories, athletic fields, security gates and cameras, and electrical and sound systems; (i) replacement and improvement of the outdoor track and related facilities; (j) such machinery and equipment as may be necessary or useful for the operation of the foregoing; and (k) such interests in land or improvements as may be necessary or suitable for the foregoing, including roads and rights of access, utilities and other necessary site preparation facilities.

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Series 2019 Bonds are provided below.

### Sources of Funds

Par Amount of Series 2019 Bonds	\$ _____
[Net Original Issue Premium]	_____

<b>Total Sources of Funds</b>	<b>\$ _____</b>
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### Uses of Funds

Capital Improvements	\$ _____
Refunding of Series 2013 Bonds	
Issuance Costs <sup>1</sup>	_____

<b>Total Uses of Funds</b>	<b>\$ _____</b>
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<sup>1</sup> Includes amounts to be paid for Issuer fees, Trustee fees, rating agency fees, legal fees, printing costs and other fees and expenses, including the Underwriter's Discount.

## SECURITY FOR THE SERIES 2019 BONDS

### General

**THE SERIES 2019 BONDS, THE INTEREST THEREON AND THE REDEMPTION PRICE THEREOF ARE LIMITED OBLIGATIONS OF THE ISSUER. THE PRINCIPAL OF, THE INTEREST ON, AND THE REDEMPTION PRICE OF THE SERIES 2019 BONDS ARE PAYABLE SOLELY FROM THE REVENUES OR OTHER MONEYS MADE AVAILABLE TO THE ISSUER FOR SUCH PURPOSE. THE SERIES 2019 BONDS, THE INTEREST THEREON AND THE REDEMPTION PRICE THEREOF ARE NOT DEBTS OR CHARGES AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE STATE, THE DEPARTMENT, THE ISSUER OR ANY OTHER PUBLIC BODY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR CHARTER PROVISION OR STATUTORY LIMITATION AND MAY NOT GIVE RISE TO ANY PECUNIARY LIABILITY OF THE STATE, THE DEPARTMENT, THE ISSUER, OR ANY OTHER PUBLIC BODY. THE SERIES 2019 BONDS ARE NOT A DEBT TO WHICH THE FAITH AND CREDIT OF THE STATE, THE DEPARTMENT, THE ISSUER, OR ANY OTHER PUBLIC BODY IS PLEDGED. THE ISSUER HAS NO TAXING POWER.**

### Pledge of Trust Estate

Pursuant to the Indenture, the Issuer will pledge and assign to the Trustee (i) all right, title and interest of the Issuer in and to, and remedies under, the Loan Agreement, together with all moneys due and to become due to the Issuer thereunder, (ii) all of the right, title and interest of the Issuer in and to the proceeds of all Bonds (including Additional Bonds), (iii) all right, title and interest of the Issuer in and to the Revenues and the Revenue Fund, (iv) all right, title and interest of the Issuer in and to any moneys and

securities from time to time on deposit in the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Fund Account, the Redemption Fund, the Construction Fund, the Construction Account, the Insurance and Condemnation Award Fund, and any and all accounts and subaccounts in any of the foregoing, and (v) any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred, as and for additional security under the Indenture for the Bonds by the Issuer or by anyone on its behalf, or with its written consent, to the Trustee (collectively, the “Trust Estate”) for the equal and ratable benefit, security and protection of all present and future holders of the Bonds, without privilege, priority or distinction as to the lien or otherwise of any Bond over any other Bond, except as otherwise provided in the Indenture and in any Supplemental Indenture authorizing the issuance of any Additional Bonds; provided, however, that there are excluded from the Trust Estate the Reserved Rights of the Issuer and the Rebate Fund and any and all accounts and subaccounts thereof, and further provided that the Issuer’s Fee Fund is held solely for the benefit of the Issuer.

The Revenues consist of (i) all payments to the Trustee for the account of the Issuer pursuant to the Loan Agreement, including (without limitation) moneys received by the Trustee from the Borrower pursuant to the Loan Agreement, and (ii) all other receipts of the Issuer or the Trustee under the Loan Agreement, including (without limitation) receipts from the enforcement thereof and the exercise of remedies thereunder; provided that the term “Revenues” does not include the Reserved Rights of the Issuer. At the present time such other receipts as described in (ii) above would consist only of earnings from the investment of moneys held by the Trustee under the Indenture.

The Trustee, as assignee of the Issuer, will hold the Loan Agreement and the liens and security interests created thereby for the benefit of the holders of all Series 2019 Bonds to the extent set forth in the Indenture and the Loan Agreement.

## **Loan Agreement**

### ***General***

The Loan Agreement will be an unconditional general obligation of the Borrower and will remain in full force and effect until all of the principal of all Bonds and the interest thereon have been paid or provision for the payment thereof has been made in accordance with the Indenture. The Loan Agreement will require the Borrower to make payments in such amounts as shall be sufficient to provide for the payment of (i) the total interest becoming due on all Bonds to the respective date of payment thereof; (ii) the total principal amounts of all Bonds; (iii) all redemption premiums (if any), payable on the Bonds; and (iv) the Costs of Issuance. The Borrower also agrees, pursuant to the Loan Agreement, to pay (a) the Trustee the Administrative Expenditures owing to the Trustee, and (b) the Issuer (i) the Issuer’s Fee, and (ii) Administrative Expenditures owing to the Issuer. Pursuant to the Indenture, the payments required by the Loan Agreement with respect to any Bonds will be assigned by the Issuer to the Trustee. See “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Loan Payments” in Appendix C.

## **Effect of Bankruptcy on Security for Series 2019 Bonds**

Enforceability of the Indenture, the Loan Agreement and the Series 2019 Bonds is subject to bankruptcy, insolvency, moratorium, reorganization and other state and federal laws affecting the enforcement of creditors’ rights and to general principles of equity. A claim for payment of the principal of or interest on the Series 2019 Bonds could be made subject to any statutes that may be constitutionally enacted by the United States Congress or the Maryland General Assembly affecting the time and manner of payment or imposing other constraints upon enforcement.

The United States Bankruptcy Code (the “Bankruptcy Code”) permits a bankruptcy court to modify the rights of a secured creditor. In the event of a bankruptcy proceeding involving the Borrower or the Issuer, the Trustee could be treated under the Bankruptcy Code as one holding a secured claim, to the extent provided in the Loan Agreement. The potential effects of the bankruptcy of the Borrower could be to delay substantially enforcement of remedies otherwise available to the Issuer or the Trustee and to allow the bankruptcy court, under certain circumstances (i) to substitute other assets of the Borrower for collateral under the Loan Agreement, (ii) to sell all or part of the collateral under the Loan Agreement without application of the proceeds to the payment of Bonds, including, without limitation, the Series 2019 Bonds, (iii) to subordinate the Loan Agreement to liens securing borrowings approved by the bankruptcy court, (iv) to permit the Borrower to cure defaults and reinstate the Loan Agreement, (v) to compel termination of the Loan Agreement by payment of an amount determined by the bankruptcy court to be the value of the collateral pledged by the Borrower thereunder (even though less than the total amount of Bonds outstanding) or (vi) to modify the terms of or payments due under the Loan Agreement. For additional detail, reference is made to the Bankruptcy Code, 11 U.S.C. §§101 *et seq.* See “CERTAIN BONDHOLDERS’ RISKS” herein.

### **Collateral Agency and Security Agreement**

Definitions of capitalized terms used in this section and not otherwise defined herein can be found in Appendix C – SUMMARY OF CERTAIN PROVISIONS OF THE COLLATERAL AGENCY AGREEMENT.

Pursuant to the Collateral Agency and Security Agreement dated as of October 1, 2011 by and among the Issuer, the Borrower, and Manufacturers and Traders Trust Company, in its capacity as trustee under the 2011 Indenture (the “2011 Trustee”), as collateral agent (the “Collateral Agent”) and as letter of credit and hedge provider with respect to the Series 2011 Bonds, as amended by the First Amendment to Collateral Agency and Security Agreement dated as of December 2, 2013 by and among the Issuer, the Borrower, the Collateral Agent, the 2011 Trustee, Manufacturers and Traders Trust Company in its capacity as trustee under the indenture for the Series 2013 Bonds, and the holders of the Series 2013 Bonds (collectively, the “Collateral Agency Agreement”) and a Joinder Supplement thereto delivered by the Trustee in connection with the issuance of the Series 2019 Bonds, agreed to by the Borrower and acknowledged by the Collateral Agent, the Borrower has granted a security interest in the Receipts to the Collateral Agent, subject to Permitted Liens, to secure, on a parity basis, obligations with respect to the Series 2011 Bonds, obligations with respect to the Series 2019 Bonds and any Additional Parity Debt Obligations. See “ADDITIONAL DEBT” herein for a description of the conditions under which Additional Bonds may be issued and other Indebtedness may be incurred by the Borrower. See also “CERTAIN BONDHOLDERS’ RISKS – Pledge of Unrestricted Receipts” herein.

The Receipts consist of all receipts, revenue, rentals, income, insurance proceeds, condemnation awards and other moneys received by or on behalf of the Borrower, including (without limitation) revenues derived from (A) the ownership, operation or leasing of any portion of the Property and all rights to receive the same, whether in the form of accounts, general intangibles or other rights, and the proceeds of such accounts, general intangibles or other rights, whether now existing or hereafter coming into existence or whether now owned or held or hereafter acquired by the Borrower, and (B) gifts, grants, bequests, donations and contributions heretofore or hereafter made to the Borrower that are legally available to meet any of the obligations of the Borrower incurred in the financing, operation, maintenance or repair of any portion of the Property.

Appropriate financing statements have been filed among the appropriate financing statement records of the State in order to perfect the security interest in the Receipts to the extent possible by such filing.

The Collateral Agent's security interest in the Receipts may be limited by the following:

- (i) statutory liens;
- (ii) rights arising in favor of the United States of America or any agency thereof;
- (iii) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction;
- (iv) state and federal insolvency or bankruptcy laws affecting revenues and receipts in which the Borrower acquires an interest and upon which the lien of the Collateral Agency Agreement attaches within the statutorily prescribed preference period prior to any effectual institution of bankruptcy proceedings by or against the Borrower and thereafter;
- (v) rights of third parties in any Receipts, including Receipts converted to cash, not in the possession of the Collateral Agent; and
- (vi) the requirement that appropriate continuation statements be filed in accordance with the Uniform Commercial Code as in effect from time to time in the jurisdiction where the Borrower is incorporated.

The Collateral Agent in its discretion may, or upon direction by a Directing Party (defined below) shall, so long as any Event of Default has occurred and is continuing under any of the Secured Party Documents, take any and all appropriate action to carry out the terms of the Collateral Agency Agreement or any other Shared Security Document. Upon the issuance of the Series 2019 Bonds, there will be no Shared Security Documents other than the Collateral Agency Agreement.

“Directing Party” means any Parity Oblige, or group of Parity Obliges acting together, holding at such time over fifty percent (50%) in amount of the Parity Obligations outstanding at such time.

Upon the occurrence of an Event of Default under any of the Secured Party Documents, there shall be created and established with the Collateral Agent a special account referred to as the Shared Collateral Account. The Collateral Agent shall maintain the Shared Collateral Account, and the assets therein shall be segregated and not commingled with other assets of the Collateral Agent. The Shared Collateral Account shall be subject to the exclusive dominion and control of the Collateral Agent and shall constitute Shared Collateral under the Collateral Agency Agreement.

After the occurrence of an Event of Default under any of the Secured Party Documents, the Collateral Agent shall make distributions from the Shared Collateral Account from time to time when directed in writing by a Directing Party or at such other times as may be required by law, except that (x) the Collateral Agent shall have the right at any time to apply monies held by it in the Shared Collateral Account to the payment of due and unpaid Collateral Agent Obligations, and (y) if and so long as no Event of Default shall have occurred and be continuing under any of the Secured Party Documents and the Borrower shall have delivered to the Collateral Agent an opinion of Bond Counsel that such action is necessary to maintain the exclusion from gross income of interest payable on any tax-exempt obligations issued for the benefit of the Borrower (collectively, “Tax-Exempt Obligations”), the Collateral Agent shall, at the written direction of the Borrower, transfer monies in the Shared Collateral Account representing casualty insurance proceeds or condemnation awards received by the Collateral Agent pursuant to any Secured Party Document with respect to property financed with the proceeds of such Tax-Exempt Obligations for application to the payment or redemption of such Tax-Exempt Obligations. Except as otherwise provided in the immediately preceding sentence, all monies held by the Collateral

Agent in the Shared Collateral Account shall, to the extent available for distribution, be distributed by the Collateral Agent as follows:

***First:*** to the Collateral Agent for any Collateral Agent Obligations due and unpaid upon such distribution date;

***Second:*** to each Parity Obligor, in an amount equal to all amounts due and payable to such Parity Obligor on such distribution date with respect to the Parity Obligations relating to such Parity Obligor; provided, that if such moneys to be distributed by the Collateral Agent shall be insufficient to pay in full the amounts owing to each Parity Obligor, then such distribution shall be made ratably (without priority of any one over any other) to each Parity Obligor in proportion to the respective amounts so owing to each Parity Obligor on such distribution date; and

***Finally:*** if all Obligations shall have been paid in full in cash, all commitments to lend or extend credit under the Secured Party Documents shall have terminated, and all other Secured Party Documents shall have terminated, any surplus then remaining shall be paid to the Borrower or its successors or assigns or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

The Parity Obligors may amend clause *Second* above to provide for a different order of distribution among themselves in a writing signed by each Parity Obligor and the Collateral Agent and delivered to the Borrower. See Appendix C – SUMMARY OF CERTAIN PROVISIONS OF THE COLLATERAL AGENCY AGREEMENT.

## **THE SERIES 2019 BONDS**

### **General**

The Series 2019 Bonds will be dated the date of issue and will bear interest from the date of issue, or otherwise from the March 1 or September 1 that is, or that immediately precedes, the date on which any such Series 2019 Bond is authenticated.

The Series 2019 Bonds will be registered as to principal and interest in the name of Cede & Co., as nominee for DTC (hereinafter defined), or otherwise as hereinafter described. Purchases of beneficial ownership interests in the Series 2019 Bonds will be made only in book-entry form in denominations of \$5,000 and any integral multiple thereof and purchasers will not receive certificates representing their interests in the Series 2019 Bonds so purchased. If the book-entry system is discontinued, bond certificates will be delivered as described in the Indenture, and Beneficial Owners (as defined below under “Book-Entry Only System”) will become the registered owners.

The Series 2019 Bonds shall bear interest at the rate or rates of interest per year, calculated on the basis of a year consisting of twelve 30-day months and payable on September 1, 2019, and semiannually thereafter on March 1 and September 1 in each year (each, an “Interest Payment Date”), and shall mature on September 1 in each of the years and in amounts as shown on the inside cover page of this Official Statement.

### **Redemption Provisions**

The Series 2019 Bonds at the time outstanding may be redeemed prior to their respective maturities as follows:

### ***Optional Redemption***

The Series 2019 Bonds are subject to redemption prior to maturity beginning on March 1, 20\_\_ at the option of the Issuer, upon the direction of the Borrower, as a whole or in part at any time, at a redemption price equal to the principal amount thereof, plus accrued interest thereon to the date set for redemption.

### ***Mandatory Sinking Fund Redemption***

The Series 2019 Bonds maturing on September 1, 20\_\_ are subject to redemption prior to maturity at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date set for redemption from mandatory Sinking Fund Installments paid from the Sinking Fund Account on September 1 of the following years in the following amounts:

<u>Series 2019 Bonds Due September 1, 20__</u>	
<u>Year</u>	<u>Sinking Fund Installment</u>

\* Maturity

The Series 2019 Bonds maturing on September 1, 20\_\_ are subject to redemption prior to maturity at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date set for redemption from mandatory Sinking Fund Installments paid from the Sinking Fund Account on September 1 of the following years in the following amounts:

<u>Series 2019 Bonds Due September 1, 20__</u>	
<u>Year</u>	<u>Sinking Fund Installment</u>

\* Maturity

### ***Extraordinary Redemption***

The Series 2019 Bonds are subject to redemption prior to maturity as a whole at any time or in part on any Interest Payment Date, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date set for redemption, from funds deposited in the Redemption Fund from (i) the proceeds of the 2019 Facility taken in the exercise of the power of eminent domain, condemnation or through the exercise of any right or any obligation on the part of any public authority to purchase the same, or as a result of any agreement between the Borrower, a local governmental authority or the State, (ii) any insurance proceeds payable in connection with the loss, damage or destruction of the

2019 Facility, in either case to the extent such amounts are not held for the repair, restoration or replacement of lost, damaged or taken property, and (iii) proceeds from the Borrower if the Borrower shall have determined that all or a substantial portion of its Operating Assets have been damaged, destroyed or taken in the exercise of the power of eminent domain or through the exercise of any right or any obligation on the part of any public authority to purchase the same or as a result of any agreement between the Borrower, a local governmental authority or the State, in any case to such extent that it is not practicable or desirable in the judgment of the Borrower to repair, restore or replace its Operating Assets.

### ***Notice of Redemption***

The Trustee shall mail notice of the call for any redemption by first class mail at least 30 days but not more than 60 days before the redemption date to the registered owners of the Series 2019 Bonds to be redeemed; provided, however, that so long as the Series 2019 Bonds are maintained in Book-Entry Form, notice of the call for redemption required to be given to the registered owners shall be given only to the Depository or its nominee in whose name such Series 2019 Bonds are registered. The failure to mail any such notice to any registered owner of Series 2019 Bonds to be redeemed, or any defect therein, shall not affect the validity of the proceedings for the redemption of any other Series 2019 Bonds. If for any reason it is impossible or impractical to mail such notice of redemption, then the Trustee shall give notice of the call for any redemption by publication at least once in an Authorized New York Newspaper and at least once in an Authorized Baltimore Newspaper, which notice shall be published at least 30 days before the redemption date. In the event notice is published as provided above, the mailing of notice to the registered owners of Series 2019 Bonds to be redeemed shall not be a condition precedent to redemption and the failure so to mail any such notice to any such registered owners shall not affect the validity of the proceedings for the redemption of Bonds.

### **Book-Entry Only System**

*The following description of the procedures and recordkeeping with respect to beneficial ownership interests in the Series 2019 Bonds, payments of principal, premium, if any, and interest on the Series 2019 Bonds to The Depository Trust Company ("DTC"), its nominee, Participants (hereinafter defined) or Beneficial Owners (hereinafter defined), confirmation and transfer of beneficial ownership interests in the Series 2019 Bonds and other bond-related transactions by and between DTC, Participants and Beneficial Owners is based solely on information furnished by DTC and neither the Issuer nor the Borrower nor the Underwriter assume any responsibility for the accuracy thereof.*

DTC will act as securities depository for the Series 2019 Bonds. The Series 2019 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2019 Bond certificate will be issued for each maturity of the Series 2019 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of



securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a rating from Standard & Poor’s of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Series 2019 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2019 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2019 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 2019 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants (the “Participants”) acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2019 Bonds, except in the event that use of the book-entry system for the Series 2019 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2019 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 2019 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2019 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2019 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of a series of the Series 2019 Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such series to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Series 2019 Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Series 2019 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and premium, if any, and interest payments on the Series 2019 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts, upon DTC’s receipt of funds and corresponding detail

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

DTC may discontinue providing its services as securities depository with respect to the Series 2019 Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2019 Bond certificates are required to be printed and delivered.

The use of the system of book-entry-only transfers through DTC (or a successor securities depository) may be discontinued as provided in the Indenture. In that event, certificates for the Series 2019 Bonds will be printed and delivered to DTC.

**For so long as the Series 2019 Bonds are registered in the name of DTC or its nominee, Cede & Co., the Issuer, the Borrower and the Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Series 2019 Bonds for all purposes, including payments, notices and voting. So long as Cede & Co. is the registered owner of the Series 2019 Bonds, references herein to the Holders or registered owners of the Series 2019 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Series 2019 Bonds and Cede & Co. will be treated as the only Bondholder of the Series 2019 Bonds for purposes of the Indenture.**

**Because DTC is treated as the owner of the Series 2019 Bonds for substantially all purposes under the Indenture, Beneficial Owners may have a restricted ability to influence in a timely fashion remedial action or the giving or withholding of requested consents or other directions. In addition, because the identity of Beneficial Owners is unknown to the Issuer, the Borrower, the Trustee or to DTC, it may be difficult to transmit information of potential interest to Beneficial Owners in an effective and timely manner. Beneficial Owners should make appropriate arrangements with their broker or dealer regarding distribution of information regarding the Series 2019 Bonds that may be transmitted by or through DTC.**

The Issuer, the Borrower and the Trustee have no responsibility or obligation to the Participants or the Beneficial Owners with respect to (A) the accuracy of any records maintained by DTC or any Participant; (B) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of and premium, if any, and interest on the Series 2019 Bonds; (C) the delivery or timeliness of delivery by any Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture to be given to Bondholders; or (D) any other action taken by DTC, or its nominee, Cede & Co., as Bondholder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

So long as Cede & Co. is the registered owner of the Series 2019 Bonds, as nominee of DTC, references in this Official Statement to the Owners of the Series 2019 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners and Cede & Co. will be treated as the only Bondholder of Series 2019 Bonds for all purposes under the Indenture.

The Issuer may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the Series 2019 Bonds without the consent of Beneficial Owners or Bondholders.

### **Exchange of Bonds**

As long as the Series 2019 Bonds are held by DTC or its nominee, Beneficial Owners may transfer their interest in the Series 2019 Bonds through the facilities of DTC as described in “Book-Entry Only System” in the Indenture. If the book-entry system is discontinued, exchanges of Series 2019 Bonds may be made at the principal corporate trust office of the Trustee (or while Manufacturers and Traders Trust Company acts as Trustee, at its corporate trust office in Baltimore, Maryland) for Series 2019 Bonds in Authorized Denominations, bearing interest at the same rate and having the same stated maturity date, in an aggregate principal amount equal to the principal amount of the Series 2019 Bonds so surrendered, upon reimbursement to the Issuer or the Trustee of an amount equal to any tax or other governmental charge required to be paid with respect to such exchange.

Neither the Issuer nor the Trustee nor the Registrar shall be required to register the transfer of any Series 2019 Bond or make any such exchange of any Bond after such Bond or any portion thereof has been selected for redemption.

If any temporary or definitive Series 2019 Bond shall become mutilated or be destroyed, lost or stolen, the Issuer in its discretion may execute, and upon its request the Trustee shall authenticate and deliver, a new Series 2019 Bond in exchange for the mutilated Series 2019 Bond or in lieu of and substitution for the Series 2019 Bond so destroyed, lost or stolen. In every case of exchange or substitution, the applicant shall furnish to the Issuer and to the Trustee (i) evidence to their satisfaction of the mutilation, destruction, loss or theft of the applicant’s Series 2019 Bond and of the ownership thereof and (ii) in the case of any destroyed, lost or stolen Series 2019 Bond, such security or indemnity as may be required by them to save each of them harmless from all risks, however remote. The Trustee may authenticate any Series 2019 Bond issued upon such exchange or substitution and deliver such Bond upon the written request or authorization of an Authorized Officer of the Issuer. Upon the issuance of any Series 2019 Bond upon such exchange or substitution, the Issuer may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses, including counsel fees, of the Issuer or the Trustee.

### **Acceleration**

Upon the occurrence of certain events, the due date for payment of the principal amount of the Series 2019 Bonds may be accelerated. *See* “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Events of Default and Remedies” in Appendix C.

### **DEBT SERVICE COVERAGE RATIO COVENANT**

The Borrower will covenant in the Loan Agreement to maintain for each Fiscal Year commencing with the Fiscal Year ending June 30, 2020 a Debt Service Coverage Ratio as of the last day of such Fiscal Year that is not less than 1.00. There shall be excluded from the calculation of the Debt Service Coverage Ratio the Debt Service Requirements of any Long-Term Indebtedness issued to finance capital improvements until the first Fiscal Year in which the Borrower shall be required to pay the interest thereon from its own funds and not the proceeds of such Indebtedness. Compliance shall be tested for each Fiscal Year, as shown on the Borrower’s annual, audited financial statements required by the Loan Agreement.

If in any Fiscal Year, the Borrower shall have failed to maintain a Debt Service Coverage Ratio of at least 1.00, the Borrower (i) shall as soon as it has knowledge of its failure to comply with the requirement described in the preceding paragraph, take all action necessary to produce the amount required as described in the preceding paragraph and (ii) shall promptly and in any event within 30 days from the receipt of the audited financial statements for the Fiscal Year in question by the Trustee employ, in accordance with the Loan Agreement, a Management Consultant to submit a written report and recommendations to increase the Debt Service Coverage Ratio in the immediately following Fiscal Year to 1.00. Provided there is no default in the payment of principal of, or premium, if any, or interest on the Series 2019 Bonds, and the Borrower implements and continuously complies with the recommendations of the Management Consultant to the extent permitted by law and as approved by the Board of Trustees of the Borrower, the Debt Service Coverage Ratio required as described in the preceding paragraph will be deemed to have been met, unless the Debt Service Coverage Ratio is less than 1.00 for any two (2) consecutive Fiscal Years. Failure to meet the requirements described in the preceding paragraph for two consecutive Fiscal Years shall constitute an Event of Default. The Borrower shall require any Management Consultant employed under the Loan Agreement to file its report and recommendations within 60 days of its engagement with the Trustee and the Issuer.

Any Management Consultant retained as described in the preceding paragraph may recommend that the Borrower either (i) make no change, or (ii) make some change, even though such recommendation is not calculated to result in compliance with Debt Service Coverage Ratio covenant if, in the opinion of such Management Consultant, compliance with such recommendation should result in compliance with such provisions to the maximum extent feasible.

## **ADDITIONAL DEBT**

### **Additional Bonds**

The Indenture allows the issuance of Additional Bonds, which must qualify as permitted additional Indebtedness under the Loan Agreement. *See* “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Additional Bonds” and “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Additional Indebtedness of Borrower” in Appendix C. Additional Bonds may be issued for any purpose for which obligations may be issued by the Issuer under the Act, including (without limitation) (i) to refund or advance refund Outstanding Bonds, (ii) to obtain funds necessary to complete the acquisition and improvement of the 2019 Facility or any Additional Facilities, and (iii) to obtain funds to finance or refinance the costs of acquisition and improvement of any Additional Facilities. Additional Bonds may be issued to pay the costs incurred by the Borrower in connection with the issuance and sale of such Additional Bonds, to capitalize interest and to establish reserves.

Each Series of Additional Bonds will be secured equally and ratably by the Indenture and the Loan Agreement with the Series 2019 Bonds and any other Additional Bonds as to the security of the Revenues to the extent provided in the Indenture. In addition, each Series of Additional Bonds will be secured on a parity with the Additional Parity Debt Obligations, as to the security of the Receipts. *See* “SECURITY FOR THE SERIES 2019 BONDS – Collateral Agency and Security Agreement” and “CERTAIN BONDHOLDERS’ RISKS – Pledge of Unrestricted Receipts” herein.

### **Other Additional Indebtedness**

The Loan Agreement permits the Borrower to incur Indebtedness in addition to Additional Bonds upon compliance with the requirements thereof. *See* “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Additional Indebtedness” in Appendix C for description of the conditions under which additional Indebtedness may be incurred by the Borrower. Any additional Indebtedness

incurred by the Borrower may be secured on a parity with the Series 2019 Bonds and the Additional Parity Debt Obligations as to the security of the Receipts. *See* “SECURITY FOR THE SERIES 2019 BONDS – Collateral Agency and Security Agreement” and “CERTAIN BONDHOLDERS’ RISKS – Pledge of Unrestricted Receipts” herein.

### **Outstanding Indebtedness**

In 2011, the Issuer issued and sold its Economic Development Revenue Bonds (McDonogh School Facility), Series 2011 A, B, C and D (collectively, the “Series 2011 Bonds”) in the original aggregate principal amount of \$38,000,000 and lent the proceeds to the Borrower to fund the construction of various capital projects. The 2011B, 2011C and 2011D Bonds, all of which were issued as multi-modal bonds, have been redeemed in full. The Series 2011A Bonds, currently outstanding in the amount of \$19,110,000, bear interest at fixed rates and are being amortized over 21 years with a final maturity date of September 1, 2040. Upon the issuance of the Series 2019 Bonds and the refunding of the Series 2013 Bonds, the only other long-term indebtedness of the Borrower will be the Series 2011A Bonds.

Pursuant to the Collateral Agency Agreement, the Borrower’s obligations with respect to the Series 2011 Bonds are secured on a parity with the Borrower’s obligations with respect to the Series 2019 Bonds and any Additional Parity Debt Obligations, as to the security of the Receipts. *See* “SECURITY FOR THE SERIES 2019 BONDS – Collateral Agency and Security Agreement” and “CERTAIN BONDHOLDERS’ RISKS – Pledge of Unrestricted Receipts” herein.

## ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth the annual debt service requirements on the Series 2011A Bonds and the Series 2019 Bonds. Upon the issuance of the Series 2019 Bonds and the refunding of the Series 2013 Bonds, the Borrower will have no outstanding long-term indebtedness other than the Series 2011A Bonds and the Series 2019 Bonds.

Year Ending <u>June 30</u>	Series 2011A Bonds <u>Debt Service</u>	<u>Series 2019 Bonds</u>			Total <u>Debt Service</u>
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2019	\$ 1,698,736				
2020	1,696,661				
2021	1,613,961				
2022	1,276,130				
2023	1,258,758				
2024	1,264,555				
2025	1,268,455				
2026	1,272,192				
2027	1,279,561				
2028	1,285,030				
2029	1,297,880				
2030	1,313,180				
2031	1,321,377				
2032	1,332,343				
2033	1,344,562				
2034	1,348,050				
2035	1,354,400				
2036	1,358,500				
2037	1,363,862				
2038	1,365,306				
2039	1,369,018				
2040	1,374,762				
2041	1,387,181				
2042					
2043					
2044					
2045					
2046					
2047					
2048					
2049					
Total	\$31,444,465				

## CERTAIN BONDHOLDERS' RISKS

Payment of the Series 2019 Bonds will depend on the Borrower's ability to generate revenues sufficient to pay debt service on the Series 2019 Bonds while paying its operating expenses. The Borrower's ability to generate revenues and its overall financial condition may be adversely affected by a wide variety of unforeseen events and circumstances. Changes in revenues and expenses will depend, among other things, upon the Borrower's ability for fundraising and development, and to attract and retain students who can pay the Borrower's tuition and fees as they exist from time to time. This in turn will be affected by the abilities of management as well as by general economic conditions beyond management's control and the competitive environment. All of these factors are unpredictable. No assurances can be given that revenues of the Borrower will not decrease or that the revenues available to the Borrower from its operations and development efforts will be available in amounts sufficient to make the required payments under the Series 2019 Bonds.

ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY UNSEEN AND UNCONTROLLABLE FACTORS, INCLUDING BUT NOT LIMITED TO, CHANGES IN EMPLOYEE RELATIONS, CHANGES IN GENERAL ECONOMIC CONDITIONS, CHANGES IN MANAGEMENT AND INCREASED INFLATION, ALL OF WHICH COULD RESULT IN CHANGES IN, OR FAILURE TO EXECUTE, MANAGEMENT'S PLANS AND RESULT IN INCREASED COSTS AND/OR LOWER THAN ANTICIPATED REVENUES.

### Competition

Competition for students in the Baltimore metropolitan area by independent schools that are similar to the Borrower is strong. See "COMPETITIVE ENVIRONMENT" in Appendix A. If the Borrower is unable to maintain its competitive position, its ability to earn revenues and to pay operating expenses, including debt service on the Series 2019 Bonds, may be impaired.

### Fundraising

The Borrower relies significantly on both annual and comprehensive campaign giving to meet its operating, capital and certain debt service needs and intends to continue its fundraising efforts. The Borrower has in the past demonstrated an ability to raise the funds necessary to subsidize the cost of its operations and to provide the funds to construct, renovate and improve its physical plant as necessary, as well as supplement scholarship expense, debt service expense and certain operating expenses from a variety of benefactors. There can be no assurance, however, that these efforts will continue to be successful. Such efforts may be affected adversely by a number of factors, including changes in general economic conditions and changes in federal and state tax laws affecting the deductibility of charitable contributions. **The Borrower's ability to pay principal of and interest on the Series 2011A Bonds and the Series 2019 Bonds is dependent on the success of its ongoing fundraising efforts. To the extent the Borrower's fundraising efforts are not as successful as anticipated, the Borrower may not be able to pay all of the debt service associated with the Series 2011A Bonds and Series 2019 Bonds. See "Rollins-Luetkemeyer Foundation Grants" below.**

### Rollins-Luetkemeyer Foundation Grants

Although the obligation of the Borrower to pay the debt service on the Series 2019 Bonds and the Series 2011A Bonds is a general obligation of the Borrower, the Borrower anticipates using amounts received pursuant to grants (the "RLF Grants") from the Rollins-Luetkemeyer Foundation, Inc. (the "Foundation") to pay the debt service associated with the Series 2011A Bonds and a portion of the debt service on the Series 2019 Bonds. As gifts, the RLF Grants are unenforceable, and the RLF Grants

contain a number of conditions which must be met prior to funds being advanced thereunder. There can be no assurance that the Borrower will be able to meet all of the conditions contained in the RLF Grants, or that if such conditions are met, the Foundation will honor its pledge under the RLF Grants. The Foundation may also terminate the RLF Grants under certain circumstances, and furthermore under certain circumstances, the Borrower may be required to pay back to the Foundation moneys advanced under the RLF Grants. See “ADVANCEMENT/FUNDRAISING – Rollins–Luetkemeyer Foundation Grants” in Appendix A. Unless moneys under the RLF Grants are released to the Borrower as anticipated, the Borrower may not be able to meet all of its debt service obligations on the Series 2011A Bonds and the Series 2019 Bonds. Certain financial information relating to the Foundation is available at [www.guidestar.org](http://www.guidestar.org).

## **Enrollment**

Historically, a substantial proportion of the Borrower’s total revenues has been derived from tuition and fee payments. Although the Borrower’s total enrollment has grown in recent years, there can be no assurance that this trend will continue, that enrollment figures will remain at levels sufficient to provide funds to pay operating expenses or payments of principal and interest on the Series 2019 Bonds and other indebtedness, or that attempts to raise tuition to offset any drop in enrollment would be successful. See “ADMISSIONS AND ENROLLMENT” in Appendix A.

## **Future Legislation**

Future legislation and regulations affecting non-profit schools, their tax-exempt status and educational institutions in general could adversely affect the operations of the Borrower.

## **Illiquidity of Investment**

The market for securities such as the Series 2019 Bonds is limited in size, and general market conditions and adverse economic prospects may significantly affect the market for any particular securities such as the Series 2019 Bonds. Prices of the Series 2019 Bonds in the event of any resale will therefore depend on circumstances impossible to predict, and such prices could be substantially lower than the original purchase price. Neither the Issuer nor the Underwriter are obligated to repurchase the Series 2019 Bonds at the request of any holder. There can be no assurance that there will be a secondary market for the purchase or sale of the Series 2019 Bonds.

## **Tax Exemptions**

### ***Tax-Exempt Status of Interest on the Series 2019 Bonds***

The Internal Revenue Code (the “Code”) imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2019 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds of the Series 2019 Bonds and the facilities financed or refinanced with such proceeds (including the 2019 Facility), limitations on the investment of amounts deemed to be proceeds of the Series 2019 Bonds prior to expenditure, a requirement that certain investment earnings on amounts deemed to be proceeds of the Series 2019 Bonds be paid periodically to the United States and a requirement that the Issuer file an information report with the Internal Revenue Service.

The Issuer and the Borrower have made certain covenants regarding actions required to maintain the excludability from gross income for federal income tax purposes of interest on the Series 2019 Bonds. Failure 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 2019 Bonds as taxable, retroactively to the date of issuance. If interest on the Series 2019 Bonds were declared includable in gross income for purposes of federal income taxation, no additional amounts would be payable on the Series 2019 Bonds to compensate the holders or former holders thereof for the taxes which they may be required to pay, and the Series 2019 Bonds do not provide for a mandatory redemption in such event.

The Series 2019 Bonds may be subject to audits by the Internal Revenue Service (“IRS”) from time to time. No ruling with respect to the tax-exempt status of the Series 2019 Bonds has been or will be sought from the IRS, and the opinion of Bond Counsel to the Issuer as to the excludability from gross income of the interest on the Series 2019 Bonds for federal income tax purposes is not binding on the IRS or the courts. *See* “TAX MATTERS.” In addition, if the Series 2019 Bonds were to be audited, the market for and the market value of the Series 2019 Bonds could be adversely affected during the pendency of the examination and thereafter, even if the outcome of the audit were to be favorable.

### ***Tax-Exempt Status of the Borrower***

The IRS has determined that the Borrower is a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code. In order to maintain such status, the Borrower will be required to conduct its operations in a manner consistent with representations it has previously made to the IRS and with current and future IRS regulations and rulings governing tax-exempt entities. In recent years, the IRS and members of Congress have expressed the view that there should exist more restrictive rules governing the tax-exempt status of 501(c)(3) organizations generally and, in particular, linking their status to the provision of services to the poor. Compliance with current and future regulations and rulings of the IRS could adversely affect the ability of the Borrower to charge and collect revenues, finance or refinance indebtedness on a tax-exempt basis or otherwise generate revenues necessary to provide for payment of the Series 2019 Bonds and the Series 2011A Bonds. Loss of tax-exempt status would likely have a significant adverse effect on the Borrower and its operations.

The Borrower covenants in the Loan Agreement to maintain its status as an organization described in Section 501(c)(3) of the Code. Any failure to maintain its tax-exempt status could subject the Borrower to federal income taxation, which could result in the loss of the excludability of interest on the Series 2019 Bonds from gross income for purposes of federal income taxation, and which could affect the funds made available to the Borrower by donors for payments under the Loan Agreement. *See* “Fundraising” and “Rollins-Luetkemeyer Foundation Grants” above.

### ***Taxation of Series 2019 Bonds in Jurisdictions other than Maryland***

An opinion of Bond Counsel has been rendered regarding the exemption of interest on the Series 2019 Bonds from certain taxation by the State of Maryland, as described under “TAX MATTERS” herein. Bond Counsel has not opined as to whether interest on the Series 2019 Bonds is subject to state or local income taxation in jurisdictions other than Maryland. Interest on the Series 2019 Bonds may or may not be subject to state or local income taxation in jurisdictions other than Maryland under applicable state or local laws. Each purchaser of the Series 2019 Bonds should consult such purchaser’s own tax advisor regarding the taxable status of the Series 2019 Bonds in a particular state or local jurisdiction.

### **Additional Debt**

Subject to specific limitations, the Borrower may incur additional Indebtedness which may be equally and ratably secured with the Series 2011A Bonds, the Series 2019 Bonds and any Additional Bonds. *See* “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Additional Indebtedness” in Appendix C. Provided that the holder of such additional Indebtedness joins in the

Collateral Agency Agreement, such additional Indebtedness would be entitled to share equally and ratably with the holders of the Series 2019 Bonds and the Series 2011A Bonds. *See* “SECURITY FOR THE SERIES 2019 BONDS – Collateral Agency and Security Agreement” herein.

### **Pledge of Unrestricted Receipts**

The Series 2019 Bonds, Series 2011 Bonds, and any Additional Parity Debt Obligations are secured by a security interest in the Borrower’s Receipts pursuant to the Collateral Agency Agreement. The existence of the pledge of Receipts will not prevent the expenditure, deposit, or commingling of the Receipts so long as all required payments are made when due and no event of default exists in connection therewith. The effectiveness of the pledge of Receipts is limited since a security interest in money generally cannot be perfected by the filing of financing statements under the Maryland Uniform Commercial Code (“UCC”). Rather, such a security interest is perfected by taking possession of the subject funds. The moneys constituting Receipts received by the Borrower from time to time are not required to be transferred to or held by the Collateral Agent, and may be spent by the Borrower or commingled with its other funds. Under the circumstances, the pledge of Receipts may not be perfected under the UCC. *See* “SECURITY FOR THE SERIES 2019 BONDS – Collateral Agency and Security Agreement.”

### **Uncertainty of Investment Income**

The investment earnings of, and accumulations in, certain funds and accounts established by the Indenture have been estimated and are based on assumed interest rates. While these assumptions are believed to be reasonable in view of the rates of return presently available, there is no assurance that similar interest rates will be available on such investments in the future, nor is there any assurance that the potential accumulations assumed will be realized.

### **Prepayment Risk**

The Series 2019 Bonds are subject to redemption, without premium, in advance of their stated maturities under certain circumstances. *See* “THE SERIES 2019 BONDS – Redemption Provisions” herein. Upon the occurrence of certain events of default, the payment of the principal of and interest on the Series 2019 Bonds may be accelerated. If the Series 2019 Bonds become due upon an acceleration or redemption, interest on the Series 2019 Bonds shall cease on the date determined by the Trustee for tender of payment and a premium will not be payable. There can be no assurance that the Series 2019 Bonds will remain outstanding until their stated maturities.

### **Enforceability of Remedies; Bankruptcy**

The realization of any rights upon a default by the Borrower will depend upon the exercise of various remedies specified in the Indenture and the Loan Agreement. 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 and the Loan Agreement 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 Loan Agreement. Accordingly, the Trustee’s ability to exercise its remedies under the Loan Agreement and the Indenture upon a default by the Borrower could be impaired by the need for judicial approval.

Bankruptcy proceedings by the Borrower also could have adverse effects on holders of the Series 2019 Bonds, including (1) delay in enforcement of their remedies, (2) subordination of their claims to claims of those supplying goods and services to the Borrower after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings, and (3) imposition without

their consent of a plan of reorganization reducing or delaying payment of the Series 2019 Bonds. The United States Bankruptcy Code contains provisions intended to ensure that, in any plan of reorganization not accepted by at least a majority of any class of creditors such as the holders of the Series 2019 Bonds, such class of creditors will have the benefit of their original claim or the “indubitable equivalent” of it, although the plan may not provide for payment in full of the Series 2019 Bonds. The effect of these and other provisions of the United States Bankruptcy Code cannot be predicted and may be affected significantly by judicial interpretation.

### **Bond Rating and Outlook**

There can be no assurance that the rating assigned to the Series 2019 Bonds at the time of issuance would not be lowered or withdrawn at any time and that the outlook assigned to the Series 2019 Bonds at the time of issuance would not be changed, which could adversely affect the purchase price and marketability of the Series 2019 Bonds. *See* “RATING” below.

### **Other Possible Risk Factors**

The occurrence of any of the following events, or other unanticipated events, could adversely affect the financial condition or results of operations of the Borrower:

- (i) unionization, employee strikes and other adverse labor actions that could result in a sizeable increase in expenditures without a corresponding increase in revenues;
- (ii) adoption of other federal, state or local legislation or regulations having an adverse effect on the future operating or financial performance of the Borrower;
- (iii) inability to control increases in operating costs, including salaries, wages and fringe benefits, supplies and other expenses, given an inability to obtain corresponding increases in tuitions, donations or other revenues;
- (iv) developments or events affecting the federal or state exemption of the Borrower’s income from taxation or the Borrower’s status as an exclusively charitable organization;
- (v) suspension or revocation of or failure to renew a license or accreditation necessary to the Borrower’s operations, or any portion thereof;
- (vi) changes in management affecting the operation of the Borrower, the 2019 Facility or any other portion of the School or the Campus;
- (vii) increases in the cost and limitations on the availability of insurance, such as healthcare, fire, automobile and general comprehensive liability insurance and business interruption insurance, that institutions of size and type similar to the Borrower generally carry;
- (viii) the inability of parents/guardians to meet their tuition obligations;
- (ix) litigation against the Borrower not adequately covered by insurance or any self-insurance reserves;
- (x) loss of state property tax exemption; and

- (xi) changes in demographic trends.

Regulatory and other changes resulting from the factors mentioned above, among others, or the occurrence of other unanticipated events could have a material adverse effect on the Borrower's financial condition or results of its operations.

The paragraphs above discuss only certain risks to Bondholders. They are not intended to be a complete enumeration of the risks involved in holding the Series 2019 Bonds. The order in which such risks are presented does not necessarily reflect the relative importance of such risks or the likelihood that any of the events or circumstances described will occur or exist.

#### **LIMITED OBLIGATIONS OF ISSUER; STATE NOT LIABLE ON BONDS**

**THE SERIES 2019 BONDS, THE INTEREST THEREON AND THE REDEMPTION PRICE THEREOF ARE LIMITED OBLIGATIONS OF THE ISSUER. THE PRINCIPAL OF, THE INTEREST ON, AND THE REDEMPTION PRICE OF THE SERIES 2019 BONDS ARE PAYABLE SOLELY FROM THE REVENUES OR OTHER MONEYS MADE AVAILABLE TO THE ISSUER FOR SUCH PURPOSE. THE SERIES 2019 BONDS, THE INTEREST THEREON AND THE REDEMPTION PRICE THEREOF ARE NOT DEBTS OR CHARGES AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE STATE, THE DEPARTMENT, THE ISSUER OR ANY OTHER PUBLIC BODY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR CHARTER PROVISION OR STATUTORY LIMITATION AND MAY NOT GIVE RISE TO ANY PECUNIARY LIABILITY OF THE STATE, THE DEPARTMENT, THE ISSUER, OR ANY OTHER PUBLIC BODY. THE SERIES 2019 BONDS ARE NOT A DEBT TO WHICH THE FAITH AND CREDIT OF THE STATE, THE DEPARTMENT, THE ISSUER, OR ANY OTHER PUBLIC BODY IS PLEDGED. THE ISSUER HAS NO TAXING POWER.**

#### **TAX MATTERS**

##### **Federal Law**

In the opinion of Miles & Stockbridge P.C., Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2019 Bonds is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Code, assuming continuous compliance with certain covenants in the Borrower's Tax Certificate and Compliance Agreement (the "Tax Certificate") which are designed to meet with requirements (to the extent applicable to the Series 2019 Bonds) of the Code and the regulations thereunder or applicable thereto, except as described below. Bond Counsel is also of the opinion that interest on the Series 2019 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the Series 2019 Bonds may, however, be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States of America.

In order to comply with the requirements of Section 103 and Sections 141 through 150 of the Code as applicable to the Series 2019 Bonds, the Issuer has required, among other things, that the Borrower enter into the Tax Certificate providing, among other things, that the Borrower will not commit, perform, or cause to be committed or performed any act which will adversely affect the exclusion of the interest on the Series 2019 Bonds from gross income of the Owners of such Bonds for federal income tax purposes or fail or refuse to commit or perform any act, the result of which failure or refusal will adversely affect such exclusion. In particular, the Tax Certificate provides that the Borrower will not make any use of the proceeds of the Series 2019 Bonds or any moneys, securities or other obligations on

deposit to the credit of the Borrower or otherwise that may be deemed by the Internal Revenue Service (the “IRS”) to be proceeds of the Series 2019 Bonds that would cause any of the Series 2019 Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

In addition, Section 148 of the Code sets forth, as a condition to exclusion of interest from gross income for federal income tax purposes on governmental obligations, such as the Series 2019 Bonds, certain restrictions regarding the investment of the “gross proceeds” of such obligations. These “arbitrage” provisions set forth limitations on the yield of investments acquired with “gross proceeds” of the Series 2019 Bonds, and also provide for periodic rebate of specified portions of the arbitrage profit derived from such investments. Failure to comply with such requirements at any time could affect the exclusion from gross income for federal income tax purposes of interest on the Series 2019 Bonds retroactive to the date of issue of the Series 2019 Bonds.

In the event of noncompliance with the covenants and agreements contained in the Tax Certificate, available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent the interest on the Series 2019 Bonds from becoming includible in the gross income of the Owners of such Bonds for federal income tax purposes.

Bond Counsel and the Issuer will assume no responsibility for, and will not monitor, compliance with the covenants and agreements set forth in the Tax Certificate.

As to questions of fact material to Bond Counsel's opinion, without undertaking to verify the same by independent investigation, Bond Counsel will rely upon the certified proceedings and other certifications of public officials furnished to Bond Counsel, and certifications by the partners, officers and other representatives of the Issuer and the Borrower (including certifications as to the nature and use of the Facility and the use of the proceeds of the Series 2019 Bonds).

Ownership of the Series 2019 Bonds may result in other federal income tax consequences to certain taxpayers, including, without limitation, property and casualty insurance companies, certain recipients of social security or railroad retirement benefits, and certain S corporations. Prospective purchasers of the Series 2019 Bonds should consult their tax advisors as to collateral federal income tax consequences. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Series 2019 Bonds.

There can be no assurance that legislation will not be introduced or enacted, after the issuance and delivery of the Series 2019 Bonds, so as to affect adversely the exclusion from gross income for federal income tax purposes applicable to the Series 2019 Bonds. Each purchaser of the Series 2019 Bonds should consult his, her or its own tax advisor regarding any changes in the status of pending or proposed federal tax legislation.

### **State and Local Tax Exemption**

In the opinion of Bond Counsel, by the terms of the Act, the principal of and interest on the Series 2019 Bonds, the transfer of the Series 2019 Bonds, and any income derived from the Series 2019 Bonds, including profits made in their sale or transfer, are exempt from state and local taxes in the State of Maryland, except that no opinion is expressed as to such exemption from estate or inheritance taxes, or any other taxes not levied directly on the principal of and interest on the Series 2019 Bonds, their transfer or the income derived therefrom.

Interest on the Series 2019 Bonds may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. All purchasers of the Series

2019 Bonds should consult their tax advisors regarding the taxable status of the Series 2019 Bonds in a particular state or local jurisdiction other than the State of Maryland.

### **Tax Enforcement**

The IRS has an on-going program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurance can be given as to whether or not the IRS will commence an audit of the Series 2019 Bonds. If an audit is commenced, under current procedures, the IRS will treat the Issuer as the taxpayer and the Series 2019 Bondholders may have no right to participate in any such proceeding. The opinion of Bond Counsel as to the excludability from gross income of the interest on the Series 2019 Bonds for federal income tax purposes is not binding on the IRS or the courts. Neither the Issuer nor Bond Counsel is obligated to defend the tax-exempt status of the interest on the Series 2019 Bonds. None of the Issuer, Borrower, or Bond Counsel is responsible for paying or reimbursing the costs of any Bondholder with respect to any audit or litigation relating to the Series 2019 Bonds, including the payment to the IRS of any settlement amount.

### **LEGALITY**

Certain legal matters relating to the authorization, issuance and sale of the Series 2019 Bonds are subject to the approving opinion of Miles & Stockbridge P.C., Bond Counsel. Such opinion will be available at the time of delivery of the Series 2019 Bonds. Bond Counsel's opinion will be limited to matters relating to the authorization and validity of the Series 2019 Bonds and to the exemption of interest on the Series 2019 Bonds under present federal and Maryland income tax laws and will make no statement as to the ability of the Borrower to provide for payment of the Series 2019 Bonds.

Certain legal matters will be passed upon for the Issuer by Barbara Curnin Kountz, Esquire, Assistant Attorney General; for the Borrower by its counsel, DLA Piper LLP (US), Baltimore, Maryland; and for the Underwriter by its counsel, Ballard Spahr LLP, Philadelphia, Pennsylvania.

### **RATING**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), has assigned its long-term rating of "A+" with Stable Outlook to the Series 2019 Bonds. Any explanation of this rating may be obtained only from S&P. Generally, rating agencies base their ratings on information and materials supplied to them and on their own investigations, studies, and assumptions. There is no assurance that such rating and outlook, once assigned, will remain for any given period of time or that the rating and/or outlook will not be lowered or the rating withdrawn entirely by S&P if in its judgment circumstances so warrant. Any such downward change of the rating and/or outlook or withdrawal of the rating may have an adverse effect on the market price of the Series 2019 Bonds.

### **THE TRUSTEE**

Manufacturers and Traders Trust Company, Baltimore, Maryland, is the Trustee under the Indenture. A successor trustee may be appointed in accordance with the terms of the Indenture. The designated corporate trust office of the Trustee is located at 3951 Westerre Parkway, Suite 300, Richmond, Virginia 23233, Attention: Global Capital Markets.

## **UNDERWRITING**

George K. Baum & Company (the “Underwriter”) has agreed, subject to certain conditions, to purchase the Series 2019 Bonds from the Issuer at a purchase price of \$ \_\_\_\_\_ (which includes [original issue premium/discount] of \$ \_\_\_\_\_). The Underwriter may offer and sell the Series 2019 Bonds to certain dealers (including dealers depositing such Series 2019 Bonds into investment trusts) and others at prices lower than the public offering prices stated on the inside cover page hereof. The public offering price set forth on the inside cover page hereof may be changed after the initial offering by the Underwriter. The Bond Purchase Agreement provides that the Underwriter will purchase all the Series 2019 Bonds if any are purchased, and requires the Borrower to indemnify the Underwriter and the Issuer against losses, claims, damages and liabilities arising out of any incorrect statements or information including the omission of material facts, contained in this Official Statement pertaining to the Borrower and other specified matters.

## **INDEPENDENT AUDITORS**

The Consolidated Financial Statements of the Borrower for the fiscal years ended June 30, 2018 and 2017 are included in Appendix B and have been audited by SC&H Attest Services, P.C., as stated in their report appearing therein.

## **LITIGATION**

There is currently no litigation of any nature to which the Issuer is a party pending or, to the knowledge of the Issuer, threatened against it to restrain or enjoin the issuance, sale, execution or delivery of the Series 2019 Bonds or in any way contesting or affecting the validity of the Series 2019 Bonds or any proceedings taken with respect to the issuance or sale thereof, or in any way contesting or affecting the validity of or application of any moneys or the security provided for the Series 2019 Bonds or the existence or powers of the Issuer in connection with the construction and equipping of the 2019 Facility.

There is no action, suit, proceeding, or investigation at law or in equity before or by any court, public board or body, pending or, to the Borrower’s knowledge, threatened, against or affecting the Borrower, challenging the validity of the Indenture or the Loan Agreement (collectively, the “Borrower Documents”) or the transactions contemplated thereby, or challenging the accuracy or completeness of this Official Statement or the validity of the transactions described herein or, to the knowledge of the Borrower, threatened against the Borrower, in which any liability of the Borrower is not adequately covered by insurance or any self-insurance reserves reasonably established by the Borrower, or in which any judgment or order would have a material adverse effect on the condition (financial or otherwise) or operations of the Borrower or affect its existence or authority to do business or the performance by the Borrower of its obligations under any of the Borrower Documents.

## **CONTINUING DISCLOSURE**

The Issuer has determined that no financial or operating data concerning the Issuer is material to any decision to purchase, hold or sell the Series 2019 Bonds, and the Issuer will not provide any such information. The Borrower has undertaken all responsibilities for any continuing disclosure to Bondholders as described below, and the Issuer shall have no liability to Bondholders or any other person with respect to such disclosures.

The Borrower will undertake in a Continuing Disclosure Agreement dated as of February 1, 2019 (the “Continuing Disclosure Agreement”) between the Borrower and Manufacturers and Traders Trust Company as dissemination agent, to comply with the provisions of Rule 15c2-12 (the “Rule”),

promulgated by the Securities and Exchange Commission (the “SEC”), by providing certain annual financial information and operating data and event notices required by the Rule. Such information is to be filed with the Electronic Municipal Market Access (“EMMA”) system of the Municipal Securities Rulemaking Board (“MSRB”). Such undertaking requires the Borrower to provide only limited information at specified times.

In the event of any failure of the Borrower to provide the required continuing disclosure, any bondholder may bring an action seeking specific performance of the Borrower’s obligations to provide continuing disclosure. No assurance can be given as to the outcome of any such proceeding.

Failure by the Borrower to comply with the continuing disclosure obligations in the Continuing Disclosure Agreement will not be an “Event of Default” under the Loan Agreement, the Indenture or under any other Bond Document, and the sole and exclusive remedy for such failure shall be an action brought by or on behalf of the holders of the Series 2019 Bonds to compel specific performance of the Borrower’s continuing disclosure obligations, as described above.

The proposed form of Continuing Disclosure Agreement is attached hereto as Appendix E.

Prior Disclosure Undertaking. The Borrower entered into a continuing disclosure agreement (the “Prior Disclosure Agreement”) in connection with the issuance of the Series 2011 Bonds. The Prior Disclosure Agreement requires the Borrower to file with the MSRB its annual audited financial statements and an update of certain financial and operating data (the “Annual Report”) within 150 days of the Borrower’s fiscal year-end. For the last five years, all Annual Reports were filed; however, in four of those years the Annual Reports were filed up to four days after the applicable deadline and failure to file notices were not posted in connection with the late filings. In addition, the Annual Report for the fiscal years ended June 30, 2014 and June 30, 2017 did not include the required operating data. The operating data for the fiscal year ended June 30, 2014 was filed December 1, 2015 and the operating data for the fiscal year ended June 30, 2017 was included in the Annual Report for the fiscal Year ended June 30, 2018, which was filed November 26, 2018. Also, the operating data for the fiscal years ended June 30, 2014 and June 30, 2015 was not linked to every CUSIP of the Series 2011 Bonds.

The Borrower has updated its disclosure policies and procedures to help ensure future compliance with its continuing disclosure obligations.

## **MISCELLANEOUS**

The Borrower has furnished all information in this Official Statement except in the sections herein “THE ISSUER,” “THE TRUSTEE,” “UNDERWRITING,” “LEGALITY” and “TAX MATTERS” and with respect to litigation affecting the Issuer. The Issuer assumes no responsibility for the accuracy or completeness of information other than in the section “THE ISSUER” and with respect to litigation affecting the Issuer (*see* “LITIGATION” herein).

## **CERTAIN RELATIONSHIPS**

A partner in the firm of DLA Piper LLP (US), which is serving as counsel to the Borrower, is a member of the Board of Trustees of the Borrower and also a member of the Board of the Foundation.

Manufacturers and Traders Trust Company, which is acting as Trustee for the Series 2019 Bonds and as Collateral Agent, and/or its affiliates, currently provide or may in the future provide other financial services to the Borrower.



The delivery of this Official Statement has been duly approved by the Borrower.

Approved:

MCDONOGH SCHOOL, INCORPORATED

By: \_\_\_\_\_  
Name:  
Title:

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## **APPENDIX A**

### **CERTAIN INFORMATION CONCERNING MCDONOGH SCHOOL, INCORPORATED**

**APPENDIX A**  
**MCDONOGH SCHOOL, INCORPORATED**

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## **MCDONOGH SCHOOL, INCORPORATED**



**Statue of John McDonogh located on the campus of the School**

### **INTRODUCTION**

McDonogh School (the “School” or “McDonogh”) was founded in 1873 as a semi-military boarding school for orphaned boys from the Baltimore area. John McDonogh, a Baltimore merchant and philanthropist, was born in 1779 and died in 1850, bequeathing half of his estate to educate children. In 1872, a tract of approximately 800 acres—essentially the same land that comprises the campus today—was purchased for the School.

Today, McDonogh is a co-educational, day, non-denominational, college preparatory and five-day boarding school. The original philosophy of the founder—to develop moral character, a sense of responsibility, and a capacity for leadership—still guides the school. McDonogh strives to help students become responsible and concerned citizens while preparing them academically for college.

### **Mission Statement**

“McDonogh School is a community that finds joy in work, in play, and in the discovery and realization of personal potential. Strong, mutually respectful relationships among and between students and teachers inspire a passion for learning, a dedication to personal integrity, and a commitment to excellence. Embracing diversity of background, culture, and thought, the School builds upon its founder's original mission to provide a life-altering opportunity to develop in its students the will ‘to do the greatest possible amount of good.’”

### **Philosophy**

Since 1873, the McDonogh community has tried to live by the words of its founder, who sought to leave the world a better place. The School seeks to inculcate the notion of doing the greatest possible amount of good in McDonogh students of all ages. The School believes that through community involvement, students learn to broaden their sight, give to those less fortunate, and discover the joy in making a difference.

In 2009, McDonogh sought to realize its commitment to character through the design of the character compass, which now hangs in every classroom. At the compass's center is the principle of service,

reminding students of the founder's service when he set up the mechanism to create a school for orphan boys, regardless of race, religion or background. The core virtues of respect, responsibility, honesty, and kindness comprise the four compass points that guide daily actions.

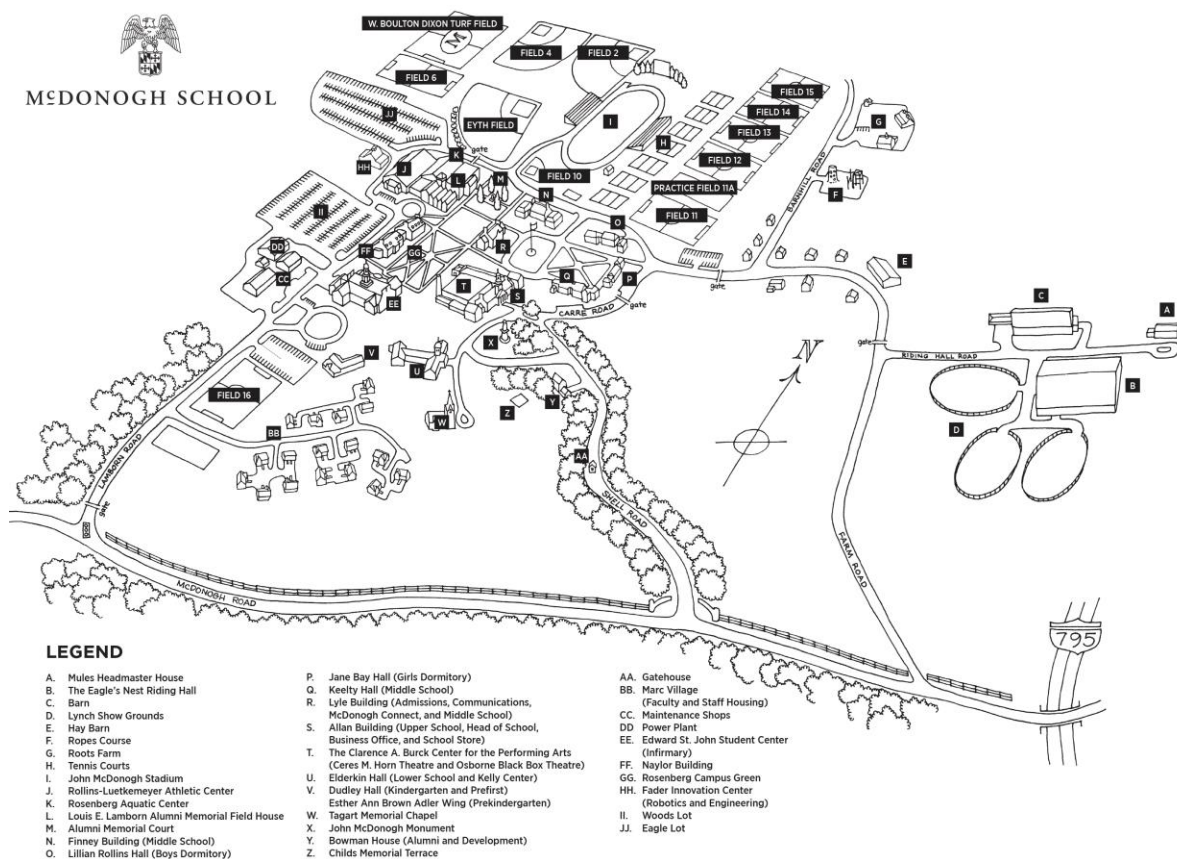
The McDonogh community applies these values to the variety of service projects that have become integral to campus life. Participation in the annual Susan G. Komen Race for the Cure involves many people from the community, the Roots garden project donates its fruits and vegetables to food kitchens, and fundraisers such as the Upper School Art Auction, the Middle School Rock Shop Concerts, and the Lower School class service projects raise money for those in need.

## ACCREDITATION

The School is accredited by the Association of Independent Maryland Schools ("AIMS") and has received a certificate of approval from the Maryland State Department of Education. McDonogh is also a member of the National Association of Independent Schools.

## LOCATION AND FACILITIES

### Campus Map



*Note:* Corporate campus not shown on above map.

## Campus Description

Located on approximately 800 acres in Owings Mills, Maryland, a suburb on the northwest side of Baltimore, McDonogh's campus (the "Campus") reflects its pastoral history as a farm school. Its facilities include buildings for each division of the School, a library, technology center, science laboratories, and art studios, as well as administrative buildings, riding facilities, campus housing for faculty, and two dormitories.



**Edward St. John Student Center**

The *Edward St. John Student Center* opened in the spring of 2014 and serves as the central gathering place for the McDonogh community. The space contains two dining halls and a café, an infirmary, a 170-seat lecture hall, a dance studio, art studios and classrooms, and the Tuttle Gallery, as well as offices and meeting rooms.



**Clarence A. Burck Center for the Arts**

The *Clarence A. Burck Center for the Performing Arts* includes the 586-seat Ceres M. Horn Theatre with state-of-the-art equipment, the Osborne Black Box Theatre, scene shop, band room, Lower School choir room and classroom space for drama and music. The spacious lobby is often used for receptions.





**Rollins-Luetkemeyer Athletic Center**

The ***Rollins-Luetkemeyer Athletic Center*** includes a multipurpose area for indoor athletics, wrestling room, classroom, athletic hall of fame, and The Henry A. Rosenberg Jr. Aquatic Center, complete with an eight-lane, 50-meter pool. Outdoor facilities feature a 5,000-seat stadium, 20 tennis courts, 18 playing fields, a 400-meter track, and a climbing wall and ropes course. Riding facilities include a 70-stall barn, four outdoor riding rings, and an indoor ring.



**Naylor Building**

The ***Naylor Building***, which opened at the start of the 2013-2014 school year, is dedicated to Upper School science, technology, engineering, and math. Named for Irvin S. Naylor '54 and his family, the space provides the best possible environment for inquiry-based education. It replaces the previous science labs and math classrooms in Allan Building.



**Fader Innovation Center**



The ***Fader Innovation Center*** houses McDonogh's burgeoning robotics and engineering programs as well as an auto bay where students can directly experience the fundamentals of physics, math, and chemistry by working on cars. It is a place where LifeReady experiences unfold each and every day-- a place where students communicate with one another about projects, solve problems alone or in groups, and think in terms of the greater good.



**Marc Village: Faculty & Staff Housing**

***Marc Village***, a housing community for faculty and staff, consists of recently constructed 38 residences in 17 new buildings. A portion of the proceeds of the 2019 Bonds will be used to reimburse the School for certain expenditures associated with this project.

### **Owings Mills Corporate Campus**

As suburbs built-up around the once rural Campus, the School decided to take a portion of the Campus in the amount of approximately 200 acres and create an office park. In 1986, the Owings Mills Corporate Campus (the "Corporate Campus") was inaugurated. Each tenant of the Corporate Campus entered into a 50-year or 99-year land lease with the School, pursuant to which rent is paid fully in advance, but ongoing maintenance and other charges are paid on an annual basis. Each tenant, with the approval of the School's architectural committee, designed and built its building at its cost. At the end of the lease, the building reverts to the School.

There are currently seven buildings with a total of 454,000 square feet located at the Corporate Campus, and there is one remaining lot available for lease. Tenants include T. Rowe Price, Baltimore Life, and the Greater Baltimore Medical Center.

## GOVERNANCE AND ADMINISTRATION

McDonogh is governed by a self-perpetuating Board of Trustees comprised of no fewer than 21 Trustees and no more than 35 Trustees. Each Trustee serves a term of four years. No elected Trustee who has served two consecutive whole or partial terms may be elected within a period of one year from the end of the second term.

### Board of Trustees

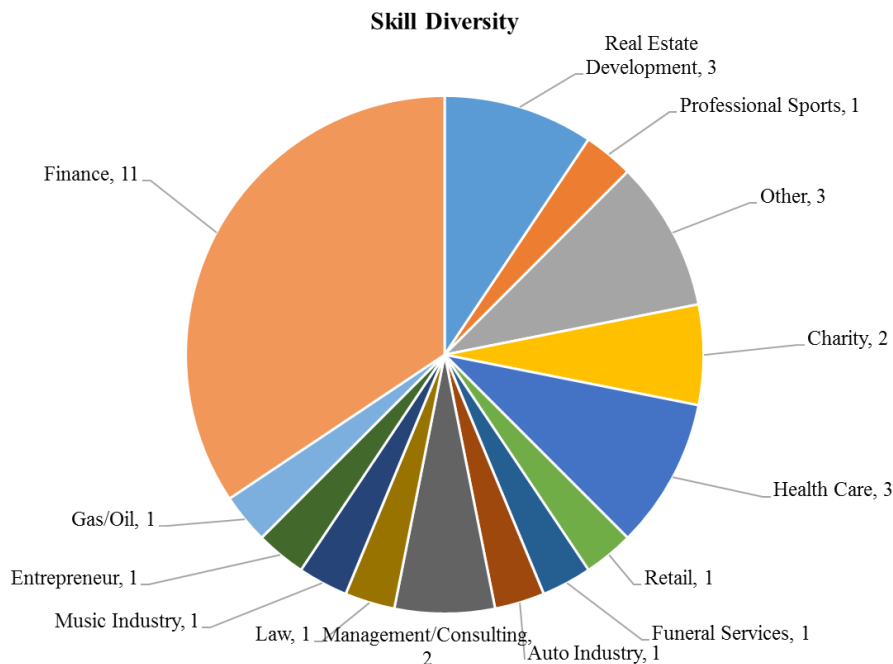
#### Name

Howard S. Klein '76, *President*  
Robert L. Young III, *Vice President*  
Michael W. Cummings, *Treasurer*  
H. Stacey Boyer '86, *Secretary*  
Edward S. Ahn, MD '92  
Robert A. Bavar '90  
Robert W. Black III '80  
Steven K. Breeden '76  
Curtis H. Cornwell '82  
Leigh Ann Curl, MD  
Irvin DeAndrei Drummond '92  
Michael S. Fader '07  
Michael L. Falcone '79  
Kristin F. K. Finkelstein '03  
Michael I. Greenebaum  
Brett Ingerman '87  
Joshua P. Jones-Dilworth '98  
Harry Kassap '86  
Stanley J. Kraska, Jr. '78  
Richard E. Levine  
John A. Luetkemeyer, Jr.  
John O. Mitchell IV '89  
Courtney S. Muller  
Steven S. Oh '86  
Callie J. Rahman  
Patricia B. Raksin, MD '88  
Henry A. Rosenberg, Jr. '48  
David D. Rothschild '82  
Richard B. Silberstein '77  
Vincent Talbert  
Taymour Tamaddon  
Clive Williams  
Samuel H. Wright '64

#### Occupation

General Counsel, Retail Food Markets  
Investment Advisory  
Banking  
Attorney  
Neurosurgeon  
Real Estate  
Investment Advisory  
Real Estate  
Accounting  
Orthopedic Surgeon  
General Counsel  
Automotive Retail  
Finance  
Non-Profit Chairman and Board Member  
Real Estate  
Attorney  
Marketing and Advertising  
Investment Advisory  
Investment Advisory  
Attorney  
Real Estate  
Funeral Homes  
Non-Profit Chairman and Board Member  
Investment Advisory  
Social Work  
Neurosurgeon  
Petroleum  
Investment Advisory  
Insurance Advisory  
Software  
Investment Advisory  
Investment Advisory  
Government Relations

## Board of Trustees



## Administration

### David Farace, *Head of School*

David J. Farace, McDonogh School Class of '87, became the 13th Head of School on July 1, 2018. Mr. Farace, as a former employee, past parent, and alumnus who attended McDonogh as a scholarship student, knows McDonogh's culture, fully embodies its mission, and shares the Board's vision for the future. Mr. Farace has dedicated his entire career to independent schools. Previously he was Head of School at The Bolles School, a highly regarded coeducational PK–12 day and boarding institution in Florida that enrolls approximately 1,600 students. Prior to joining The Bolles School in 2015, Mr. Farace served as Head of School at Montgomery Academy in Alabama for five years. His professional life began at McDonogh where, over the course of more than a decade, he held various positions including Director of Upper School Admissions, Director of Alumni Relations, and Director of Major Gifts and Planned Giving. He also directed the Rollins-Luetkemeyer Leadership Program, taught and coached in the Middle and Upper Schools, and he and his wife, Becky, served as campus parents to McDonogh boarders.

Mr. Farace holds a Bachelor of Arts in Economics degree from Washington and Lee University and a Master of Arts in Liberal Studies degree from Johns Hopkins University. He is also an NAIS/E.E. Ford Fellow, which is granted to individuals who successfully complete this distinguished leadership development program for independent school leaders.

**Sherri Voelkel, *Chief Financial Officer***

**Educational Background:**

- University of Tulsa, BSBA

**Employment:**

- Chief Financial Officer, McDonogh School, 2016-present
- Chief Financial Officer, Immediate Response Technologies, LLC f/k/a TVI Corporation, 2006-2015
- Director of Attest and Accounting Services, Sturn, Wagner, Lombardo, 2002-2006
- Partner, Accounting & Business Advisory Services, PricewaterhouseCoopers, 1999-2001
- Senior Manager, Pricewaterhouse Coopers, 1995-1999
- Audit Senior, Pricewaterhouse Coopers, 1992-1994
- Various positions in Public Accounting Firms, 1985-1992

**John W. (Jack) Hardcastle '02, *Chief Information Officer***

**Educational Background:**

- Rice University, B.A.

**Employment:**

- Chief Information Officer, McDonogh School, 2010-present
- Chief Technology Officer, Folio Network, LLC, 2011-2012
- Web Engineer, Network Manager, McDonogh School, 1998-2010
- Web Programmer, White Marlin Open, 2001-2010
- Freelance Web Design, Various Clients, 2000-2010

**Peter Welch, *Chief Operating Officer***

**Educational Background:**

- University of North Carolina, B.A.
- McDaniel College, M.S.

**Employment:**

- Chief Operations Officer, McDonogh School, 2016-present
- Director of Safety and Security, McDonogh School, 2011-2016
- Director of Middle School Athletics, McDonogh School, 2001-2016
- Head Coach, McDonogh School Varsity Wrestling Team, 1993-present
- Lower & Middle School Physical Education Teacher, McDonogh School, 1993-2016
- Lower School Associate Teacher, McDonogh School, 1993-1994

**Stephen Birdsall, *Director of Enrollment Management***

**Educational Background:**

- Washington and Lee University, B.A.
- The Catholic University of America, M.A.

**Employment:**

- Director of Enrollment Management, McDonogh School, 2015-present
- Director of Financial Aid, McDonogh School, 2011-2015
- Associate Director of Admissions, McDonogh School, 2006-2011
- World History Teacher, McDonogh School, 2009-2014
- Junior Varsity Lacrosse Coach, McDonogh School, 2006-2012
- House Parent, Boys Dormitory, 2007-2011
- Assistant Director of Admissions & Financial Aid, Sidwell Friends School, 2000-2006
- Local Development Officer / Coach, English Lacrosse Association, 1999-2000

**Kerry Johnston, *Director of Development***

**Educational Background:**

- University of Maryland, B.S.
- University of Vermont, M.Ed.

**Employment:**

- Director of Development, McDonogh School, 2016-present
- Director of Development, Calvert School (MD), 2004-2016
- Associate Director of Annual Programs, Gilman School (MD), 1999-2004
- Coordinator of Campus Activities, Univ. of NC, Wilmington, 1998-1999

**Kathryn (Kate) Mueller, *Associate Head of School (Incoming)***

**Educational Background:**

- University of Michigan, B.S.
- Idaho State University, M.S.

**Employment:**

- Associate Head of School, McDonogh School, (Beginning July 1, 2019)
- Associate Head of School, Western Reserve Academy (OH), 2012-2019
- Dean of Faculty & Chair of Mathematics Department, Western Reserve Academy (OH)
- Mathematics Teacher, Western Reserve Academy (OH)

**Darren Ford, *Head of Middle School***

**Educational Background:**

- Bucknell University, B.S.
- Johns Hopkins University, M.A.

**Employment:**

- Head of Middle School, Math Teacher, McDonogh School, 2002-present
- Junior Class Dean, Math Teacher/Coach, McDonogh School, 1998-2002
- Multicultural Coordinator, Math Teacher/Coach, McDonogh School, 1995-1998
- Math and Geography Teacher/Coach, Wyoming Seminary, 1993-1995
- Math Teacher/Coach, McDonogh School, 1984-1993
- Math Teacher/Coach, Pennington School, 1981-1984

### **Merritt Livermore, *Head of Upper School***

#### **Educational Background:**

- University of Maryland, College Park, B.S.
- Johns Hopkins University, M.Ed.

#### **Employment:**

- Head of Upper School, McDonogh School, 2014-present
- Associate Head of Middle School, McDonogh School, 2010-2014
- Dean of Students, McDonogh Middle School, 2005-2010
- Sophomore Class Dean, McDonogh School, 2002-2005
- Upper School Technology Coordinator, McDonogh School, 1999-2002
- Technology Coordinator, Prince George's County Schools, 1997-1999
- Teacher, Prince George's County Schools, 1995-1997
- Consultant, Independent School Management, 2008-present

### **Barbara Robins, *Head of Lower School***

#### **Educational Background:**

- University of British Columbia, B.Ed.
- Royal Society of Arts, England, Diploma TESL

#### **Employment:**

- Head of Lower School, McDonogh School, 2015-present
- Associate Head of Lower School, McDonogh School, 2010-2015
- Second Grade Teacher, McDonogh School, 2005-2010
- Pre-first Teacher, St. Paul's Lower School, 2004-2005
- Head of Learning Support, Tanglin Trust School, Singapore, 2000-2002
- Learning Support and Classroom Teacher, Tanglin Trust School, Singapore, 1998-2000
- Associate Director of MBA Admissions, International Institute for Management Development, Switzerland, 1994-1997
- Research Associate, Institute for Management Development, 1992-1994
- Vice Principal, Wanneroo Junior Primary School, Western Australia, 1989-1990
- Principal, Karratha Junior Primary School, Western Australia, 1988-1989

## **FACULTY AND STAFF**

### **General**

McDonogh employs the equivalent of 190 full-time faculty members, approximately 60% of whom hold advanced degrees, and approximately 23% of whom live on campus. More than 50 faculty and staff families form part of the vibrant campus community. The student-teacher ratio is 7:1, and the average teaching tenure is 14.9 years.

The Lower School, Pre-Kindergarten through 4th grade, employs a total of 53 faculty and staff members and enrolled 344 students in the 2018-19 school year. The average class size in the Lower School is 15.6 children. The Middle School, grades 5 through 8, employs 60 faculty and staff members and enrolled 409 students in the 2018-19 school year. The average class size in the Middle School is 14.8 children. The Upper School, grades 9 through 12, employs 95 faculty and staff members and enrolled 646 students in the 2018-19 school year. The average class size in the Upper School is 12.9 children.

## Employee Benefits

**Pension Plan.** The School maintains a 403(b) defined contribution retirement plan, which employees may contribute to as soon as they are hired. After a year of service with a minimum of 1,000 hours, employees become eligible for contributions from the School. The provisions of the plan designate that employees with 1-15 years of service will receive contributions from the School equal to 5% of their base compensation, as defined by the plan. Employees with over 15 years of service will receive contributions equal to 6% of their base compensation. In addition, the plan offers a voluntary matching program. The matching program designates that the School will contribute 25% of the employee contribution amount of up to 5% of their gross earnings. The plan is fully funded, and money is transferred to the employees' accounts immediately after each bi-weekly pay. All transfers to the pension funds are made in a timely fashion and there are no liabilities outstanding.

**Health Insurance.** The School offers, and financially underwrites, access to both a Preferred Provider Organization (PPO) and a Health Maintenance Organization (HMO). The school also offers high deductible plans with associated health savings accounts as an option with both the PPO and the HMO. The School pays on average approximately 73% of the monthly cost of coverage. To purchase this insurance coverage, the School is a member of a healthcare consortium of over 50 schools. This consortium, AIMS Benefit Trust, is managed by Educators Benefit Services, which employs a professional staff that monitors usage and coordinates the bidding of the yearly health insurance contracts. Employees also have access to dental care and vision care which are not subsidized by the School.

## THE ACADEMIC PROGRAM

McDonogh's "Picture of the Graduate," detailed in its academic strategic plan, *LifeReady*, promises that students will emerge from McDonogh able —

- To communicate well in a variety of arenas
- To ask questions and solve problems in groups and on their own
- To adapt, lead, and think for communities global and local

Continually responsive to a rapidly changing world, McDonogh nevertheless promises to maintain the very best of what has made the school so successful for nearly 150 years: powerful relationships, expert teachers, and appropriate resources. But McDonogh also promises to develop modes of learning that respond to current and future imperatives. These imperatives demand students who think deeply and well, leverage the richness of working in diverse communities, keep the greater good primary in their thoughts and actions, and understand that to serve is at the heart of one's purpose in life.

To support this vision, McDonogh has an aligned, competency-based curriculum supported by vibrant programs in its lower, middle, and upper school divisions.

## **The Lower School**



**Edlerkin Hall (Lower School)**

The Lower School emphasizes core reading, writing, social studies, and math skills, and the curriculum is integrated across subjects to reinforce students' learning experiences. In addition, children have ample exposure to fine and performing arts, science, technology, and athletics. An integrated language arts program combines instruction in phonics, writing, and immersion in literature and non-fiction texts. Math skills are taught through concrete materials that are, in time, augmented by more abstract concepts and operations. All special subjects included in the Lower School curriculum are taught in self-contained classrooms.

## **The Middle School**



**Finney Building (Middle School)**

In all four grades of the Middle School, students study English, math, and social studies, as well as a foreign language. In mathematics, students in fifth, sixth, and seventh grades study basic operations of different number systems, number theory, geometry, problem-solving strategies, probability, and statistics. Students in eighth grade study algebra. An accelerated program starting in the sixth grade allows seventh graders to take Algebra I and eighth graders to take Geometry. Admission to this program is by teacher recommendation only, which is determined by classroom observations, performance, and mathematical reasoning. Earth science, physics, chemistry, and biology are included at each grade level and the campus



is utilized for instruction in environmental studies in the seventh and eighth grades in conjunction with a study of the Chesapeake Bay. The social studies curriculum includes cultural geography courses in fifth and sixth grades and survey courses in United States history in seventh and eighth grades. Individual and group projects are undertaken in these courses to exercise student imagination and creativity. Programs in the arts, athletics, leadership skills, outdoor education, and community service help the faculty in their goal to teach the whole child, not just specific curricular areas. Each student also takes a course of wellness education throughout middle school to learn about appropriate topics and behaviors to support their social and emotional well-being now and throughout their lives. In the Middle School, the daily advisor program provides personal guidance and support for each student.

## **The Upper School**

In striving to meet its primary academic goals, the Upper School encourages students to read, write, and reason perceptively; to assimilate and synthesize complex ideas; to understand and master the principal means and the central ethics of scholarly research; to develop mature and sophisticated vocabularies; to become proficient in at least one foreign language and familiar with the culture from which it comes; to participate in the arts; to perceive the nature of historical progressions and their influence on the present and the future; to experience the precision and the exploratory scope of scientific inquiry; and to command the language and logic of mathematics.

Minimum graduation requirements for the Upper School are:

<u>Subject</u>	<u>Courses</u>
English	4
Visual or performing arts	1
Foreign Language	3
History	3
Math	3
Science	3
Physical Education	2
Electives	2

Additionally, all Upper School students must complete 40 hours of community service.

## **Five-Day Boarding**

McDonogh's boarding program offers an opportunity for Upper School students to live on Campus during weekdays. On average, 85 boarders live on Campus in two dormitories. Residing on Campus provides immediate access to the School's activities and resources particularly in the evening. Boarding also provides a safe environment for students to learn to live away from home before attending college and helps students develop independence, self-discipline, and personal responsibility in a structured and supportive setting. The program fosters respect for differences by bringing students of diverse backgrounds together.

## **EDUCATIONAL AND EXTRACURRICULAR PROGRAMS**

### **Arts**

The arts at McDonogh provide laboratory environments where students explore creative and imaginative problem-solving skills. The curriculum embraces the unique ways in which the visual and performing arts, in addition to their own intrinsic value, capture and shape ideas from the major areas of study at the School. The arts continuously provide “aha!” moments for students when they experience, for themselves, the interconnectedness of things.

The arts curriculum affords accessible and inclusive opportunities for a diverse group of student artists: those hoping to hone their artistic skills in a more conservatory/college preparatory environment, as well as students interested in engaging in the arts on a more recreational level. Programs of note include an award-winning theater program, cohesive dance curricula integrated into the academic school day, a process and concept-driven visual arts program, and a vocal and instrumental music program based upon problem-solving, theory, and technique.

### **Athletics**

The role of athletics in a student’s life is important to the McDonogh community. The Athletic Department believes athletics are an extension of the academic day where valuable lessons are taught. Sports programs are designed to be in harmony with the educational objectives of the School, with a multi-sport philosophy. Additionally, the School seeks to provide opportunities in which students can participate in a healthy and competitive environment and develop socially, mentally, and physically. Students are able to learn life lessons such as how to work with a group, be selfless, be resilient, and become gracious winners and losers.



**Louis E. Lamborn Alumni Memorial Field House**

A key component of McDonogh's athletic program is teaching and reinforcing in players the values relating to wholesome competition, great sportsmanship, and fair play. It begins with coaches who set a good example for players and spectators. Treating officials as well as the opposing team's coaches, players, and fans with respect is expected of all McDonogh constituents--players, coaches, and parents--at all home and away competitions.

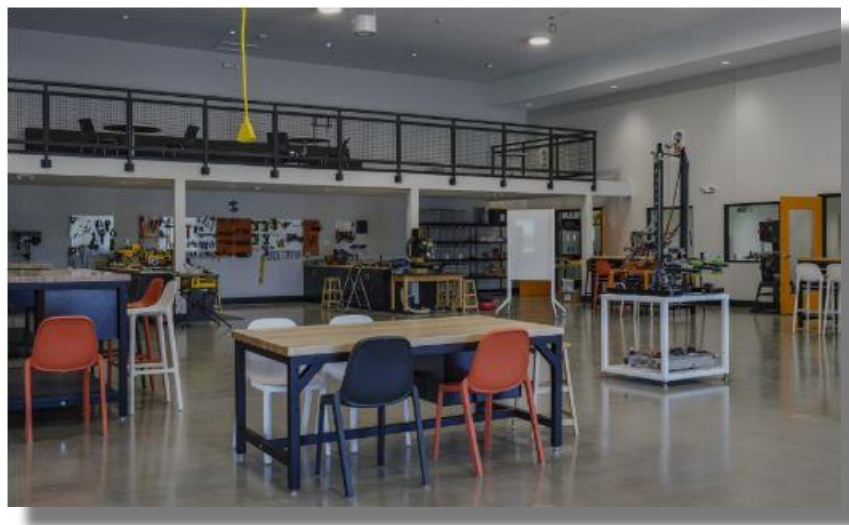
McDonogh's athletic philosophy embraces the theory that participation in multiple sports contributes to students' personal well-being and sustains McDonogh's athletic program. All divisions incorporate physical education and personal wellness requirements into the curriculum. There are 97 total teams across all academic divisions.

Upper School students may choose between 28 interscholastic sports or a comprehensive, multi-faceted physical education program to fulfill their physical education/athletic requirement. In most sports, McDonogh offers varsity and junior varsity teams, and third teams are offered when student interest is high enough. Middle School students in grades seven and eight may join interscholastic teams in 20 different sports. A no-cut policy gives these students a chance to try activities that interest them, to develop a love of sport, and to improve their skills. Sports offered at McDonogh include boys' and girls' cross country, soccer, tennis, riding, basketball, swimming, indoor track, track & field, lacrosse, squash, baseball, softball, football, volleyball, cheerleading, field hockey and more.

In the 2017-18 season, seven teams won area championship games, seven teams were undefeated in league play, ten varsity teams were rated in the top ten in the Baltimore area, and the varsity girls' lacrosse team made it to the championship game, but lost, ending its 198-game winning streak. Other successes included many first and second team All-Metro Players of the Year, several Athletes of the Week and over 40 MIAA and IAAM All Conference recipients. While athletic teams successfully achieve performance and rankings, the School emphasizes athletics as a method of developing relationships and life skills.

## **Technology**

In recognition of the technological proficiency students are expected to have upon graduation, McDonogh provides technology from Prekindergarten to Grade 12; all classrooms are outfitted with wireless access, projectors or interactive whiteboards and other types of electronic displays, sound systems, and more. All libraries are equipped with computers, and students are afforded access to a number of electronic resources both on campus and from home. All classrooms on the campus are hardwired and Wi-Fi is available across the Campus, including in the dormitory boarding facilities. Technology education is offered beginning in the Lower School, and includes programming and computer science, robotics, engineering and design, and a wide variety of 21st century electives in the Upper School.



**Fader Innovation Center**

## **Summer Camps**

Taking advantage of its large Campus, the School operates an extensive summer camp program. During the summer of 2018, the campus averaged over 1,200 campers per day. There are more than 80 different camps available from which children may choose, including: traditional day camps for all ages, outdoor adventure, teen camp, extreme camp, multiple arts camps, circus camp, rock shop (band), drone camps, gaming and coding camps, chess, writing strategies, golf, tennis, competitive swim, squash and badminton, baseball, soccer, lacrosse, wrestling, football, basketball, horseback riding and more.

These programs generate a positive cash flow which supports the School's operations. *See* "MANAGEMENT DISCUSSION" herein.

## **ADMISSIONS AND ENROLLMENT**

In order to attract the greatest number of prospective families, the Admissions Office seeks to interact with the larger community. McDonogh is represented at the Association of Independent Maryland Schools (AIMS) Fair, the Teachers on Hand fair, and the Maryland and Washington area school fairs catering directly to families looking at schools. The Admissions Office (located in Lyle Building, pictured below) also holds information sessions, open houses with current students present, and scheduled tours.



**Lyle Building**

The School's bus transportation system allows McDonogh to admit students from a much larger geographic area than would otherwise be possible. The fleet of 28 buses stop in Baltimore City and the Counties of Baltimore, Howard, Anne Arundel, and Carroll. Bus service is included in tuition. In addition to normal bus routes, late buses bring athletes to central stops following afternoon practices.

The following table displays fall full-time equivalent enrollment for the years shown.

	<u><b>2014-2015</b></u>	<u><b>2015-2016</b></u>	<u><b>2016-2017</b></u>	<u><b>2017-2018</b></u>	<u><b>2018-2019</b></u>
Lower School	309	338	334	344	344
Middle School	398	409	407	405	409
Upper School	<u>592</u>	<u>603</u>	<u>628</u>	<u>635</u>	<u>646</u>
<b>Total</b>	<b>1,299</b>	<b>1,350</b>	<b>1,369</b>	<b>1,384</b>	<b>1,399</b>

The following table displays the aggregate number of applicants, admitted students, and matriculations for the years shown below for all grades combined.

	<u><b>2014-2015</b></u>	<u><b>2015-2016</b></u>	<u><b>2016-2017</b></u>	<u><b>2017-2018</b></u>	<u><b>2018-2019</b></u>
Applications	896	925	878	842	930
Acceptances	249	318	241	269	267
Matriculations	177	236	164	182	204

In addition, the data shown below outlines the acceptance and matriculation (of candidates accepted) percentages during the same period.

	<u><b>2014-2015</b></u>	<u><b>2015-2016</b></u>	<u><b>2016-2017</b></u>	<u><b>2017-2018</b></u>	<u><b>2018-2019</b></u>
Acceptance Rate	28%	34%	27%	32%	29%
Matriculation Rate	71%	74%	68%	68%	76%

## **TUITION AND FINANCIAL AID**

### **Tuition and Financial Aid**

McDonogh maintains what it believes to be competitive tuition compared to other area independent schools. Tuition fees cover all charges for classroom instruction, meals, laboratories, and athletics (except riding and squash). Also included in the tuition fee are bus transportation and lunch for day students, as well as breakfast, lunch, and dinner for boarding students.

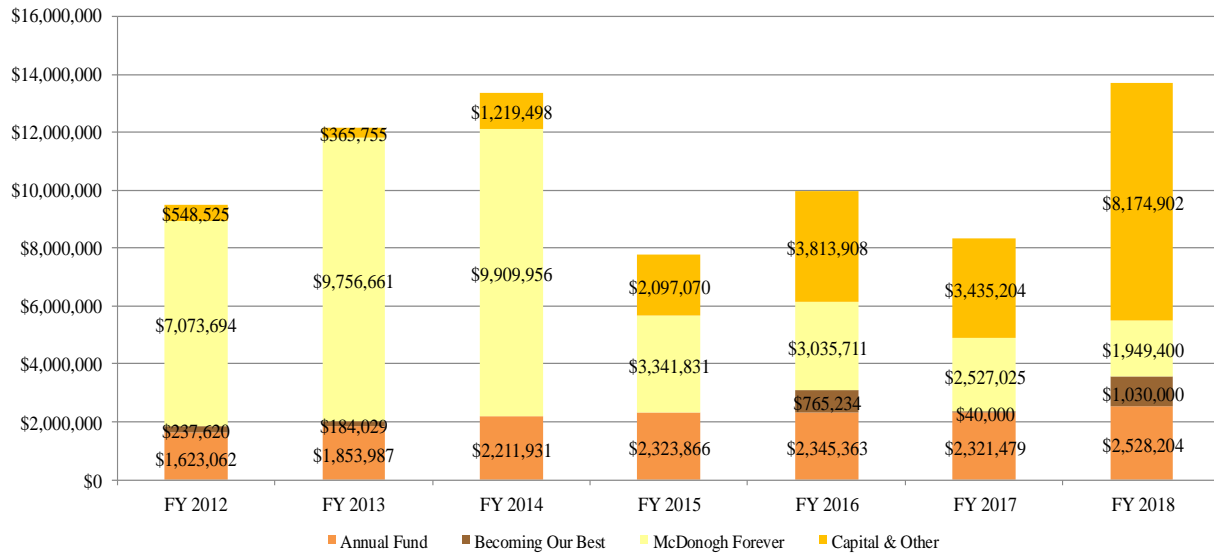
McDonogh scholarship students represent a vital tie to the history of the School and the aim of John McDonogh's original gift. During the 2018-19 academic year, the School budgeted for \$6,483,370 in need-based financial aid to 302 students. This excludes financial support offered to the children of McDonogh's full-time employees, through its tuition remission program described below.

### **Tuition Remission**

Under the School's tuition remission program, children of full-time faculty and staff who attend the School pay 20% of the tuition otherwise charged, with the School subsidizing the remaining 80%. The School's 80% subsidy for the fiscal years ended June 30, 2018 and 2017 were \$3,132,752 and \$3,064,007, respectively.

## ADVANCEMENT/FUNDRAISING

McDonogh's advancement team fundraises through annual giving, planned giving and capital campaigns. In fiscal year 2018 (as of June 30, 2018), total giving reached \$13,682,506 with annual giving at \$2,528,204. The chart below covers total giving for the fiscal years shown. The Annual Fund is designated and used for the School's operating budget, and includes certain temporarily restricted funds which are not included in Annual Giving Contributions as shown on the statement of activities for the School.



### The McDonogh Legacy Campaign

The Board of Trustees approved McDonogh's latest capital campaign in October 2017. The goal is to raise \$100MM with key priorities of the campaign including:

- ❖ \$50MM for Endowment (to support programs, scholarships and faculty & professional development),
- ❖ \$25MM toward the construction of a new middle school building,
- ❖ \$5MM for an addition to the library, to showcase and store the School's archive collection, while also offering a vibrant and engaging environment for research, learning, and discovery, and
- ❖ \$20MM cumulatively for The McDonogh Fund by escalating annual funds raised each year from \$2.3MM to \$3.5MM.

As of December 12, 2018, \$27,000,000 has been pledged.

## **Rollins-Luetkemeyer Foundation Grants**

**2015 RLF Grant.** The Rollins-Luetkemeyer Foundation, Inc. (the “Foundation”) was formed in 1961 to perpetuate the charitable interests of founders Beale Rollins and John A. Luetkemeyer, Sr. in education and the arts. In November 2009, the Foundation made a grant (the “2009 RLF Grant”) for the express purpose of renovating the Campus. The 2009 RLF Grant was amended and restated pursuant to a Gift Agreement between the Foundation and the School dated May 13, 2015 (the “2015 RLF Grant”). The 2015 RLF Grant provides a commitment of up to \$48,000,000, payable in 30 equal annual installments of \$1,600,000 by June 30 of each year through 2039. Payments to the School from the 2009 RLF Grant and the 2015 RLF Grant have consistently been received by the School and have been used to date, to make full annual debt service payments on the Series 2011 Bonds. Certain financial information relating to the Foundation is available at [www.guidestar.org](http://www.guidestar.org).

The 2015 RLF Grant contains a number of conditions, including that: (1) the debt level of the School may not exceed 60% of the value of its Endowment (as described below), measured quarterly; (2) the School may not operate at a deficit for more than two consecutive years under cash (as compared to accrual) accounting (the determination of which is more fully described below); (3) the School continues the tuition remission program as described under “TUITION AND FINANCIAL AID - Tuition Remission” herein, for the entire 30-year term of the 2015 RLF Grant which ends on June 30, 2039; (4) the School uses the moneys from the 2015 RLF Grant to fund the Campus Master Plan or to make the debt service payments on the proceeds of any money made available to fund such improvements (including the Series 2011 Bonds); (5) the proposed Campus improvements must be completed within the schedule set forth in the 2015 RLF Grant; and (6) the School must receive cash contributions from other donors equal to \$40 million. There are certain specified gifts in the 2015 RLF Grant that do not count toward the required matching funds thereunder and there are specified dates by which matches must be made.

The endowment (the “Endowment”) is shown on the School’s audited financial statement on the line item entitled “Investments.” The Endowment as of the fiscal years ended June 30, 2016, 2017 and 2018 was \$96,107,248, \$103,669,916 and \$109,746,858, respectively. As of June 30, 2018, indebtedness of the School amounted to 26.2% of the Endowment. In determining whether a deficit exists for purposes of compliance with the terms of the 2015 RLF Grant as described above, if any of the Endowment in excess of the percentage of the Endowment that historically (as determined over the prior three fiscal years) has been used to fund operating expenses of the School during each fiscal year is used to pay operating expenses, such excess shall be excluded from revenues. A deficit would result if expenses were to exceed revenues as reduced by such excess. As of the date of this Official Statement, the amount used to fund operating expenses of the School is equal to 4.9% of the average of the Endowment’s balance over the preceding three fiscal years.

In the event that the tuition remission program requirement of the 2015 RLF Grant is not met, the Foundation in its sole discretion may elect, but shall not be obligated, to fund tuition remission or scholarship payments that were to have been funded by the School, in which case the gifts to be made under the 2015 RLF Grant by the Foundation shall be reduced dollar-for-dollar by any such payments made by the Foundation.

If an audit shows that funds under the 2015 RLF Grant were not used by the School for the purposes designated or if the tuition remission program has not been funded as required by the 2015 RLF Grant, the Foundation may terminate the 2015 RLF Grant, and the School must refund to the Foundation all gifts made pursuant thereto within the three-year period prior to termination.

The 2015 RLF Grant provides that it will terminate if the Foundation, in its sole discretion, determines that (a) a change shall have occurred in the School’s current mission of inspiring a passion for

learning, dedication to personal integrity, commitment to excellence, and mutually respectful relationships among and between students and teachers, (b) a change shall have occurred in the current nature or character of the School which stresses excellence in academics, athletics, the arts and personal growth, character and integrity, (c) the School shall have failed to satisfy the conditions and requirements set forth in the 2015 RLF Grant, or (d) a change in the leadership of the School shall have occurred which would materially and adversely affect the School.

The 2015 RLF Grant is a gift and as such is not enforceable. Furthermore, there can be no assurance that (i) the School will be able to meet all of the conditions contained in the 2015 RLF Grant, (ii) if such conditions are met, the Foundation will honor its pledge under the 2015 RLF Grant, or (iii) the Foundation will not terminate the 2015 RLF Grant for any of the reasons specified above.

**2018 RLF Grant.** On November 15, 2018, the Foundation and the School entered into a Gift Agreement evidencing a new commitment in support of the recently constructed faculty and staff housing project located in Marc Village, as well as the headmaster's house project. The 2018 RLF Grant documentation indicates a pledge payment of \$500,000 will be made by the Foundation following receipt by the School of another donor's pledge payment in full, in the amount of \$5.5 million. Subsequently, the Foundation is to make three payments of \$1.6 million each on December 31 of the years 2040, 2041 and 2042. Certain conditions must be met by the School to receive the 2018 RLF Grant, including that (a) the faculty and staff housing must be operated on a cashflow positive basis, (b) the School must fund a reserve account for replacement costs and capital expenditures of \$200,000 per annum, and (c) a designee of the Foundation will serve on the Board of Trustees, the Finance Committee, and the Investment Committee of the School until the final payment associated with the 2018 RLF Grant has been made.

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## ACADEMIC PERFORMANCE AND COLLEGE MATRICULATION

The School's College Counseling Office recognizes that the application process involves one of the first and most important life decisions a student makes, and the counselors believe that family support and exploration of potential schools should ultimately lead to the best fit for the student. Below are colleges and universities attended by the class of 2018.

American University	Johns Hopkins University	United States Naval Academy (5)
Amherst College	Kenyon College	United States Naval Academy Prep School (2)
Auburn University	Lehigh University	University of California, Berkeley
Barnard College	Loyola University Maryland (2)	University of California, Los Angeles (2)
Baylor University	Lynchburg College	University of Delaware
Bentley University	Millersville University of Pennsylvania	University of Florida (2)
Boston University	New York University	University of Maryland, Baltimore County (2)
Bucknell University (2)	Northeastern University (2)	University of Maryland, College Park (8)
Butler University	Northwestern University (3)	University of Massachusetts, Amherst (2)
Carleton College	Pennsylvania State University (6)	University of Miami
Clemson University (2)	Radford University	University of Michigan (5)
Colgate University	Randolph-Macon College	University of Pennsylvania (2)
Colorado School of Mines	Reed College	University of Rhode Island
Columbia University	Rhodes College (3)	University of Tennessee, Knoxville
Cornell University	Rice University	University of Utah
Dartmouth College (2)	Rochester Institute of Technology	University of Virginia (2)
Dickinson College	Stanford University	Vanderbilt University (2)
Duke University (3)	Syracuse University (3)	Villanova University (2)
Elon University (3)	Texas A&M University	Virginia Tech (8)
Emerson College	Texas Christian University	Wake Forest University (2)
Emory University (4)	The George Washington University	Washington and Lee University (3)
Fairfield University	The Ohio State University	Washington College
Franklin & Marshall College	The University of Alabama	Washington University in St. Louis (3)
Geneva College	The University of Tampa	Webb Institute
Georgetown University	The University of Texas, Austin	Yale University (3)
Georgia Institute of Technology (3)	Towson University (2)	York College of Pennsylvania
Hofstra University	Tufts University (3)	
Indiana University at Bloomington	United States Military Academy - Army	

### Standardized Tests

Average scores for students taking the SAT Reasoning Test ("SAT") and the ACT test are shown below for the years indicated. Note: SAT scores for the class of 2017 and 2018 reflect the revised exam.

Year	SAT (1600 Scale)	ACT (36 Scale)
2014	1248	28
2015	1237	27
2016	1238	27
2017	1291	28
2018	1303	29

## COMPETITIVE ENVIRONMENT

The Baltimore metropolitan area has a strong and successful private school market. There are 11 major independent school competitors which could attract students of a similar caliber to the School. Two of the key market differentiators are co-education and location. Only three competitors are co-ed schools and one of those only educates students through grade 8.

Five of the competing schools are clustered in the center of Baltimore City while McDonogh is situated northwest of Baltimore City in Baltimore County close to major arterial interchanges. The School operates its own bus service that services four counties and Baltimore City. The bus service, which is included in tuition for all students, allows the School to extend its marketing area as far as Annapolis, MD. In addition, McDonogh is the only school among such competitors to offer a five-day boarding program for Upper School students.

(See “ADMISSIONS AND ENROLLMENT” herein.)

The information below compares tuition rates for McDonogh’s competitors for the 2018-19 school year.

<u>School</u>	<u>Grade 1</u>	<u>Grade 6</u>	<u>Grade 9</u>
Boy’s Latin	\$25,300	\$27,750	\$29,500
Bryn Mawr	\$29,630	\$30,990	\$31,990
Calvert**	\$24,300	\$25,950	
Friends	\$26,770	\$29,690	\$30,690
Garrison Forest	\$27,955	\$29,390	\$30,555
Gilman	\$26,645	\$28,530	\$30,550
<b>McDonogh</b>	<b>\$27,610</b>	<b>\$29,310</b>	<b>\$30,720</b>
Park	\$28,060	\$29,990	\$31,970
Roland Park Country	\$28,640	\$29,990	\$30,590
St. Paul’s	\$25,520	\$28,300	\$29,800

*\*\* through 8<sup>th</sup> grade only*

## FINANCIAL PERFORMANCE SUMMARY

The following financial information should be read in conjunction with the audited financial statements of the School, related notes, and the auditor's report for the Fiscal Year ended June 30, 2018, which are included as Appendix B to this Official Statement.

### Financial Statements of the School

McDonogh operates on a fiscal year ending June 30. For the fiscal years ended June 30, 2014, 2015, 2016, 2017 and 2018, the financial information presented below has been derived from the audited financial statements of the School. In the opinion of the School's management, there has been no material adverse change in the financial condition of the School since June 30, 2018, the date of the last audited financial statements. During the year ended June 30, 2011, McDonogh formed a wholly-owned subsidiary, Folio Network, LLC ("Folio"). Folio, a for-profit company, created performance appraisal software for schools, from which it receives royalty income.

### MCDONOGH SCHOOL, INCORPORATED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION FYE JUNE 30, 2014-2018

	2014	2015	2016	2017	2018
<b>ASSETS</b>					
Cash and cash equivalents	\$ 21,452,656	\$ 14,070,968	\$ 12,915,663	\$ 15,278,280	\$ 4,793,538
Accounts receivable, net	628,190	610,637	607,923	594,250	539,683
Pledges receivable, net	5,751,534	4,832,999	4,021,320	3,323,275	4,011,418
Gifts receivable	2,603,101	3,345,615	-	-	-
Loans receivable, net	305,172	183,950	-	-	-
Other receivables, net	-	-	153,979	358,868	741,603
Investments	106,001,425	102,852,090	96,409,653	103,626,493	109,791,754
Charitable remainder unitrusts	-	-	2,996,376	3,674,543	4,145,015
Assets held in annuity trusts	2,116,323	2,096,799	1,854,006	1,842,378	1,799,397
Land development costs, net of accumulated depreciation	5,272,815	5,138,571	5,004,658	4,870,142	4,735,917
Land, buildings and equipment, net of accumulated depreciation	78,015,826	79,620,545	80,204,133	77,726,480	87,989,323
Deferred financing costs, net	399,224	348,648	-	-	-
Other assets	1,328,324	1,617,949	1,574,557	1,763,510	1,655,640
<b>TOTAL ASSETS</b>	<b>\$ 223,874,590</b>	<b>\$ 214,718,771</b>	<b>\$ 205,742,268</b>	<b>\$ 213,058,219</b>	<b>\$ 220,203,288</b>
<b>LIABILITIES</b>					
Trade accounts payable and other liabilities	\$ 1,703,873	\$ 1,491,810	\$ 1,935,671	\$ 2,001,574	\$ 2,491,478
Construction fees payable	1,059,730	232,697	111,120	-	1,328,471
Fees collected in advance	4,920,529	5,498,506	5,900,337	5,916,884	5,811,933
Industrial revenue bonds	49,814,164	43,125,720	36,119,849	35,443,274	28,745,923
Interest rate swap agreement	340,367	417,619	799,281	336,704	55,668
Deferred leasehold income	5,885,887	5,748,759	5,611,631	5,474,503	5,337,375
Annuities payable	1,315,031	920,744	840,308	809,957	816,242
<b>TOTAL LIABILITIES</b>	<b>\$ 65,039,581</b>	<b>\$ 57,435,855</b>	<b>\$ 51,318,197</b>	<b>\$ 49,982,896</b>	<b>\$ 44,587,090</b>
<b>NET ASSETS</b>					
Unrestricted					
Undesignated	\$ 80,816,730	\$ 74,117,232	\$ 76,212,286	\$ 79,602,220	\$ 87,230,223
Board designated	9,004,980	7,843,069	7,313,655	7,729,442	8,091,500
Total Unrestricted Net Assets	89,821,710	81,960,301	83,525,941	87,331,662	95,321,723
Temporarily Restricted	16,114,949	40,523,511	34,966,219	38,085,893	38,983,007
Permanently Restricted	52,898,350	34,799,104	35,931,911	37,657,768	41,311,468
<b>TOTAL NET ASSETS</b>	<b>\$ 158,835,009</b>	<b>\$ 157,282,916</b>	<b>\$ 154,424,071</b>	<b>\$ 163,075,323</b>	<b>\$ 175,616,198</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 223,874,590</b>	<b>\$ 214,718,771</b>	<b>\$ 205,742,268</b>	<b>\$ 213,058,219</b>	<b>\$ 220,203,288</b>

**MCDONOGH SCHOOL, INCORPORATED**  
**CONSOLIDATED STATEMENT OF ACTIVITIES FYE JUNE 30, 2014-2018**

	2014	2015	2016	2017	2018
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>					
Gross tuition and fees	\$ 33,766,434	\$ 35,083,794	\$ 37,365,252	\$ 38,986,784	\$ 40,525,916
Less: Non-employee scholarships and financial aid	(5,031,413)	(5,168,345)	(5,483,808)	(5,716,912)	(6,004,264)
Employee tuition support	(2,610,152)	(2,753,672)	(2,758,072)	(3,064,007)	(3,132,752)
Net tuition and fees	26,124,869	27,161,777	29,123,372	30,205,865	31,388,900
Annual giving contributions	2,072,544	1,852,077	2,283,938	2,318,508	2,500,832
Other contributions and gifts	587,199	49,996	683,809	53,209	19,969
Capital campaign contributions	8,747,681	1,738,184	3,895,443	99,150	1,442,873
Endowment revenue designated for operations	-	-	4,356,000	4,473,000	4,460,570
Student support services / programs	1,341,695	1,306,493	364,826	640,847	449,799
Auxiliary programs	-	-	4,717,179	4,564,284	4,914,112
Other programs	2,486,964	2,574,638	-	-	-
Investment income, net of fees	904,872	484,150	-	-	-
Net realized and unrealized gains (losses)	9,034,778	(4,071)	-	-	-
Leasehold income / revenue	414,441	443,267	432,171	402,502	439,218
Other revenue	785,130	894,678	478,193	709,253	1,145,437
Reclassification of pledges receivable	-	-	-	-	(132,142)
Net assets released from restrictions	6,205,838	5,961,096	3,277,982	7,959,644	11,762,133
<b>TOTAL REVENUES, GAINS, AND OTHER SUPPORT</b>	<b>58,706,011</b>	<b>42,462,285</b>	<b>49,612,913</b>	<b>51,426,262</b>	<b>58,391,701</b>
<b>UNRESTRICTED EXPENDITURES AND OTHER DEDUCTIONS</b>					
Instructional	13,334,175	13,360,029	17,826,054	18,252,369	18,235,030
Student support services / Academic support services	5,495,112	5,944,548	5,085,269	5,124,159	5,359,981
Administration, admissions and development	-	-	7,348,609	7,516,069	9,147,358
General administration	5,491,527	5,462,116	-	-	-
General institutional	729,438	708,254	-	-	-
Plant operations and maintenance	4,177,643	4,390,882	5,329,653	6,066,041	6,082,696
Plant additions, renewals and maintenance	976,253	696,222	-	-	-
Auxiliary programs	-	-	3,724,398	4,115,201	4,514,234
Other programs	2,083,968	2,103,634	-	-	-
Employee benefits	4,833,854	5,073,940	-	-	-
Land use administrative and development expenses	398,665	376,258	-	-	-
Depreciation and amortization expense	2,587,109	3,215,764	3,473,649	3,996,025	3,595,501
Loss (gain) on disposal of property and equipment	212,191	16,545	(180)	-	-
Loss on change in fair value of interest rate swap agreement	191,844	77,252	381,662	-	-
Bad debt expense (recovery)	312,677	(85,253)	53,835	146,281	582,400
Leasehold expense	-	-	282,765	282,464	297,096
Interest expense	786,316	1,280,277	1,228,318	-	-
<b>TOTAL EXPENSES AND OTHER DEDUCTIONS</b>	<b>41,610,772</b>	<b>42,620,468</b>	<b>44,734,032</b>	<b>45,498,609</b>	<b>47,814,296</b>
<b>REALLOCATION ADJUSTMENTS</b>	<b>-</b>	<b>2,635,369</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN UNRESTRICTED NET ASSETS FROM OPERATIONS</b>	<b>17,095,239</b>	<b>2,477,186</b>	<b>4,878,881</b>	<b>5,927,653</b>	<b>10,577,405</b>
<b>UNRESTRICTED NON-OPERATING REVENUES &amp; EXPENSES</b>	<b>-</b>	<b>-</b>	<b>(5,407,263)</b>	<b>(2,121,932)</b>	<b>(2,587,344)</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>	<b>17,095,239</b>	<b>2,477,186</b>	<b>(528,382)</b>	<b>3,805,721</b>	<b>7,990,061</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>(2,798,778)</b>	<b>(4,607,290)</b>	<b>(3,463,270)</b>	<b>3,119,674</b>	<b>897,114</b>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>	<b>4,909,745</b>	<b>578,011</b>	<b>1,132,807</b>	<b>1,725,857</b>	<b>3,653,700</b>
<b>NET ASSETS, BEGINNING</b>	<b>139,628,803</b>	<b>158,835,009</b>	<b>157,282,916</b>	<b>154,424,071</b>	<b>163,075,323</b>
<b>NET ASSETS, ENDING</b>	<b>\$ 158,835,009</b>	<b>\$ 157,282,916</b>	<b>\$ 154,424,071</b>	<b>\$ 163,075,323</b>	<b>\$ 175,616,198</b>

## ENDOWMENT AND INVESTMENT POLICY

The School consolidates its long-term investments in a pool that is managed by the Board of Trustees' Investment Sub-Committee. The Investment Sub-Committee meets quarterly and reviews manager performance and asset allocation and makes changes as required.

The assets of the investment pool are held by a custodian – M&T Bank. Investments are predominately in publicly traded mutual funds. Quarterly, an independent investment advisory firm calculates the value of the investments and produces a report showing investment returns with the fund performances compared to various benchmarks. Each quarter the Investment Sub-Committee reviews these data.

The largest portion of this investment pool is the School's endowment. The School has a policy of appropriating for distribution each year a percentage of its endowment fund's average fair value over the three fiscal years prior to the fiscal year in which the distribution is planned. For the years ended June 30, 2018 and 2017, the School's appropriation was 4.9 percent and 5 percent, respectively. The amount appropriated from the endowment is subject to change annually upon approval of the School's Board of Trustees.

The market values for the School's investment pool and the asset allocation of the funds are shown below.

### Investment Pool

Asset Class	June 30, 2016		June 30, 2017		June 30, 2018	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
US Equity & Private Investments	\$32,185,453	33.5%	\$36,089,583	34.8%	\$40,658,899	37.0%
Large-cap		15.2%		15.2%		16.5%
Mid-cap		7.5%		7.5%		8.0%
Small-cap		8.1%		7.6%		8.6%
Private Inv.		2.6%		4.5%		4.0%
Global ex. US Equity	13,674,522	14.2%	\$16,407,244	15.8%	16,440,672	15.0%
Real Assets	8,547,759	8.9%	\$9,714,505	9.4%	10,736,824	9.8%
Alternative Assets	16,347,084	17.0%	\$20,403,938	19.7%	21,154,343	19.3%
U.S. Bonds	19,012,229	19.8%	\$19,904,168	19.2%	19,828,624	18.1%
Cash and equivalents	<u>6,340,200</u>	<u>6.6%</u>	<u>\$1,150,478</u>	<u>1.6%</u>	<u>927,497</u>	<u>0.8%</u>
Total:	\$96,107,248	100.0%	\$103,669,916	100.0%	\$109,746,858	100.0%

## **OUTSTANDING INDEBTEDNESS**

In October 2011, the School borrowed \$38,000,000 in Maryland Industrial Development Financing Authority Economic Development Revenue Bonds to finance the costs of construction related to various improvements to the School's Campus. The amount borrowed consisted of four bond series: Series A \$20,000,000 fixed rate bonds and Series B, C, and D, each for \$6,000,000 of variable rate bonds. Principal payments on the Series A Bonds will begin in 2019, with a maturity date of September 2040. The 2011 Series B, C and D Bonds have been fully redeemed with the proceeds of capital campaign gifts.

In December 2013, the School borrowed \$11,800,000 of Maryland Industrial Development Financing Authority Economic Development Refunding Revenue 2013 Bonds to refinance its weekly variable rate 2005 Series Bonds which had a principal balance of \$11,745,000. The 2013 Bonds will be refunded with the proceeds of the Maryland Industrial Development Financing Authority Economic Development Revenue Series 2019 Bonds.

Following the issuance of the Series 2019 Bonds, the only other long-term indebtedness will consist of the 2011 Series A Bonds. The School uses dedicated gifts from the Rollins-Luetkemeyer Foundation to pay annual debt service on its Series 2011 A Bonds (*See* "Rollins-Luetkemeyer Foundation Grants" in ADVANCEMENT/FUNDRAISING.)

## **INSURANCE**

The School maintains comprehensive insurance coverage. Primary coverage includes package coverage, inland marine, boiler and machinery, general liability, business automobile, workers compensation, excess liability, crime, international coverage, educators legal liability, professional liability, student accident, pollution and equine coverage.

## **LITIGATION**

The School is subject to a variety of suits arising from the ordinary course of business. It is the opinion of the School that there is no litigation that is currently pending or of which the School has knowledge that will result in any material adverse impact on the School's financial condition.

## **MANAGEMENT DISCUSSION**

McDonogh has evolved from its inception in 1873 to become one of the most highly respected independent schools in the country. The School's academic rigor together with its long-standing philosophy to instill the core virtues of respect, responsibility, honesty and kindness have positioned its students to attain much while leaving the world a better place. McDonogh's graduating class of 2018, with an average SAT of 1303, enrolled in more than 80 colleges and universities, including Dartmouth, Cornell, Northwestern, Texas A&M, both the United States Military Academy and Naval Academy, UC Berkeley, University of Pennsylvania and Yale. Complementing its strong academics, McDonogh's athletic philosophy embraces the theory that participation in multiple sports contributes to one's well-being where the values of wholesome competition, great sportsmanship and fair play are reinforced.

The School has been able to both modernize its campus and maintain a competitive price through its commitment to fiscal responsibility. Over the past ten years, McDonogh has invested approximately \$86.5 million in capital expenditures. Of this amount, approximately \$20 million was funded through the issuance of long-term fixed rate debt, and \$66.5 million was funded through operating funds, gifts and grants. McDonogh has a strong capacity to raise funds from alumni, parents and friends. (See “ADVANCEMENT/FUNDRAISING” herein.) Of particular note are gifts both pledged and received since 1961 from the Rollins-Luetkemeyer Foundation, including the Foundation’s commitment to fund annual gifts equal to the full debt service payments associated with the School’s 2011A Bonds through final maturity. (See “Rollins-Luetkemeyer Foundation Grants” herein.)

Acceptance and attendance at McDonogh are consistently sought after by parents and students in the greater Baltimore region. The School’s overall acceptance rate for the 2018-19 school year was 29%, coupled with a matriculation rate of 76%. While the School is situated in Baltimore County close to arterial interchanges, because it operates its own bus service (included in tuition together with daily lunch), four counties and the City of Baltimore are served.

Financial performance has been strong during the past five years ending June 30, 2018, with Changes in Unrestricted Net Assets from Operating Activities ranging from \$2.5 million to \$17.1 million, including FY ’18 results at \$10.6 million. Total Net Assets have grown from \$158.8 million in FY ’14 to \$175.6 million in FY ’18. Investments equaled \$109.8 million at June 30, 2018. Of note, annual non-tuition revenue includes significant pledged gifts from the Rollins-Luetkemeyer Foundation (previously described), royalties from the School’s for-profit subsidiary, Folio Network, LLC, and lease revenue from its office park known as Owings Mills Corporate Campus, occupied by tenants which include T. Rowe Price, Baltimore Life, and the Greater Baltimore Medical Center. (See “Owings Mills Corporate Campus” herein.)

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**APPENDIX B**

**AUDITED FINANCIAL STATEMENT OF MCDONOGH SCHOOL, INCORPORATED**

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# **McDONOGH SCHOOL, INCORPORATED**

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**Consolidated Financial Statements  
Together with Independent Auditors' Report**

**For the Years Ended June 30, 2018 and 2017**

# McDONOGH SCHOOL, INCORPORATED

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
McDonogh School, Incorporated:

We have audited the accompanying consolidated financial statements of McDonogh School, Incorporated (a nonprofit organization) (the School), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonogh School, Incorporated as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*SC&H Attest Services, P.C.*

October 17, 2018

# McDONOGH SCHOOL, INCORPORATED

## Consolidated Statements of Financial Position

<i>As of June 30,</i>	<i>2018</i>	<i>2017</i>
Assets		
Cash and cash equivalents	\$ 4,793,538	\$ 15,278,280
Accounts receivable, net	539,683	594,250
Pledges receivable, net	4,011,418	3,323,275
Other receivables, net	741,603	358,868
Investments	109,791,754	103,626,493
Charitable remainder unitrusts	4,145,015	3,674,543
Assets held in annuity trusts	1,799,397	1,842,378
Land development costs, net of accumulated amortization	4,735,917	4,870,142
Land, buildings and equipment, net of accumulated depreciation	87,989,323	77,726,480
Other assets	1,655,640	1,763,510
<b>Total Assets</b>	<b>\$ 220,203,288</b>	<b>\$ 213,058,219</b>
Liabilities and Net Assets		
Trade accounts payable and other liabilities	\$ 2,491,478	\$ 2,001,574
Construction fees payable	1,328,471	-
Industrial revenue bonds, net	28,745,923	35,443,274
Interest rate swap agreement	55,668	336,704
Fees collected in advance	5,811,933	5,916,884
Deferred leasehold income	5,337,375	5,474,503
Annuities payable	816,242	809,957
<b>Total Liabilities</b>	<b>44,587,090</b>	<b>49,982,896</b>
Commitments and Contingencies (Note 17)		
Net Assets		
Unrestricted		
Undesignated	87,230,223	79,602,220
Board designated	8,091,500	7,729,442
<b>Total Unrestricted Net Assets</b>	<b>95,321,723</b>	<b>87,331,662</b>
Temporarily restricted	38,983,007	38,085,893
Permanently restricted	41,311,468	37,657,768
<b>Total Net Assets</b>	<b>175,616,198</b>	<b>163,075,323</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 220,203,288</b>	<b>\$ 213,058,219</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

# McDONOGH SCHOOL, INCORPORATED

## Consolidated Statement of Activities For the Year Ended June 30, 2018

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Operating Revenue				
Gross student tuition and fees	\$ 40,525,916	\$ -	\$ -	\$ 40,525,916
Less: Non-employee scholarships and financial aid	6,004,264	-	-	6,004,264
Employee tuition support	3,132,752	-	-	3,132,752
Net student tuition and fees	31,388,900	-	-	31,388,900
Annual giving contributions	2,500,832	27,372	-	2,528,204
Other contributions and gifts	19,969	666,080	-	686,049
Capital campaign contributions	1,442,873	5,985,379	-	7,428,252
Endowment revenue designated for operations	4,460,570	-	-	4,460,570
Student support programs	449,799	-	-	449,799
Auxiliary programs	4,914,112	-	-	4,914,112
Other revenue	1,145,437	-	-	1,145,437
Leasehold revenue	439,218	-	-	439,218
Reclassification of pledges receivable	(132,142)	132,142	-	-
Net assets released from restriction	11,762,133	(11,762,133)	-	-
Total Operating Revenue	58,391,701	(4,951,160)	-	53,440,541
Operating Expenses				
Instructional	18,235,030	-	-	18,235,030
Academic support services	5,359,981	-	-	5,359,981
Administration, admissions and development	9,147,358	-	-	9,147,358
Operation of plant and maintenance	6,082,696	-	-	6,082,696
Auxiliary programs	4,514,234	-	-	4,514,234
Depreciation and amortization expense	3,595,501	-	-	3,595,501
Bad debt expense	582,400	-	-	582,400
Leasehold expense	297,096	-	-	297,096
Total Operating Expenses	47,814,296	-	-	47,814,296
Changes in Net Assets from Operating Activities	10,577,405	(4,951,160)	-	5,626,245
Non-Operating Revenues, Expenses, and Other Changes				
Contributions	32,102	216,656	3,007,929	3,256,687
Investment revenue, net of fees	372,894	697,654	-	1,070,548
Realized and unrealized gains, net	2,661,867	4,985,633	-	7,647,500
Investment revenue transferred to operations	(4,460,570)	-	-	(4,460,570)
Change in value of trusts and gifts annuities	10,757	273,446	-	284,203
Change in value of cash surrender value	3,528	-	-	3,528
Net transfer to endowment and other changes	(382,161)	(263,610)	645,771	-
Increase in value of underwater funds	61,505	(61,505)	-	-
Loss on disposal of property and equipment	(48,667)	-	-	(48,667)
Gain on change in fair value of interest rate swap agreement	281,036	-	-	281,036
Interest expense	(1,119,635)	-	-	(1,119,635)
Total Non-Operating Revenues, Expenses, and Other Changes	(2,587,344)	5,848,274	3,653,700	6,914,630
Change in Net Assets	7,990,061	897,114	3,653,700	12,540,875
Net Assets, beginning of year	87,331,662	38,085,893	37,657,768	163,075,323
Net Assets, end of year	\$ 95,321,723	\$ 38,983,007	\$ 41,311,468	\$ 175,616,198

*The accompanying notes are an integral part of this consolidated financial statement.*



# McDONOGH SCHOOL, INCORPORATED

## Consolidated Statement of Activities For the Year Ended June 30, 2017

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Operating Revenue				
Gross student tuition and fees	\$ 38,986,784	\$ -	\$ -	\$ 38,986,784
Less: Non-employee scholarships and financial aid	5,716,912	-	-	5,716,912
Employee tuition support	3,064,007	-	-	3,064,007
Net student tuition and fees	30,205,865	-	-	30,205,865
Annual giving contributions	2,318,508	-	-	2,318,508
Other contributions and gifts	53,209	1,165,031	-	1,218,240
Capital campaign contributions	99,150	2,918,033	-	3,017,183
Endowment revenue designated for operations	4,473,000	-	-	4,473,000
Student support programs	640,847	-	-	640,847
Auxiliary programs	4,564,284	-	-	4,564,284
Other revenue	709,253	-	-	709,253
Leasehold revenue	402,502	-	-	402,502
Net assets released from restriction	7,959,644	(7,959,644)	-	-
Total Operating Revenue	51,426,262	(3,876,580)	-	47,549,682
Operating Expenses				
Instructional	18,252,369	-	-	18,252,369
Academic support services	5,124,159	-	-	5,124,159
Administration, admissions and development	7,516,069	-	-	7,516,069
Operation of plant and maintenance	6,066,041	-	-	6,066,041
Auxiliary programs	4,115,201	-	-	4,115,201
Depreciation and amortization expense	3,996,025	-	-	3,996,025
Bad debt expense	146,281	-	-	146,281
Leasehold expense	282,464	-	-	282,464
Total Operating Expenses	45,498,609	-	-	45,498,609
Changes in Net Assets from Operating Activities	5,927,653	(3,876,580)	-	2,051,073
Non-Operating Revenues, Expenses, and Other Changes				
Contributions	21,750	-	1,172,455	1,194,205
Investment revenue, net of fees	367,719	677,741	-	1,045,460
Realized and unrealized gains, net	3,233,903	5,953,317	-	9,187,220
Investment revenue transferred to operations	(4,473,000)	-	-	(4,473,000)
Change in value of trusts and gifts annuities	118,886	678,168	-	797,054
Net transfer to endowment and other changes	(451,670)	(101,732)	553,402	-
Increase in value of underwater funds	211,240	(211,240)	-	-
Loss on disposal of property and equipment	(442,533)	-	-	(442,533)
Gain on change in fair value of interest rate swap agreement	462,577	-	-	462,577
Interest expense	(1,170,804)	-	-	(1,170,804)
Total Non-Operating Revenues, Expenses, and Other Changes	(2,121,932)	6,996,254	1,725,857	6,600,179
Change in Net Assets	3,805,721	3,119,674	1,725,857	8,651,252
Net Assets, beginning of year	83,525,941	34,966,219	35,931,911	154,424,071
Net Assets, end of year	\$ 87,331,662	\$ 38,085,893	\$ 37,657,768	\$ 163,075,323

*The accompanying notes are an integral part of this consolidated financial statement.*

# McDONOGH SCHOOL, INCORPORATED

## Consolidated Statements of Cash Flows

<i>For the Years Ended June 30,</i>	<i>2018</i>	<i>2017</i>
Cash Flows from Operating Activities		
Change in net assets	\$ 12,540,875	\$ 8,651,252
Adjustments to reconcile change in net assets		
to net cash and cash equivalents used in operating activities:		
Permanently restricted contributions	(3,007,929)	(1,172,455)
Contributions designated for capital improvements	(7,428,252)	(3,017,183)
Loss on disposal of property and equipment	48,667	442,533
Depreciation expense	3,461,276	3,861,509
Amortization of leasehold revenue	(137,128)	(137,128)
Amortization of land development costs	134,225	134,516
Amortization of bond premium	(18,717)	(18,106)
Amortization of deferred financing costs	28,361	28,877
Provision for uncollectable accounts receivable	119,963	193,028
Provision for (recovery of) uncollectable pledges receivable	463,013	(43,752)
Recovery of uncollectable other receivables	(576)	(2,995)
Increase (decrease) in discount on promises to give	46,060	(64,865)
Net investment revenue and realized gain on investments	(5,764,347)	(11,221,938)
Net unrealized (gain) loss on investments	(2,953,701)	990,830
Change in value of assets held in annuity trusts	(17,042)	11,628
Change in value of annuities payable	6,285	(30,351)
Change in value of interest rate swap agreement	(281,036)	(462,577)
Effects of changes in operating assets and liabilities:		
Accounts receivable	(65,396)	(179,355)
Pledges receivable	(1,197,216)	806,662
Other assets	107,870	(188,953)
Trade accounts payable and other liabilities	489,904	65,903
Fees collected in advance	(104,951)	16,547
Net Cash and Cash Equivalents Used in Operating Activities	(3,529,792)	(1,336,373)

# McDONOGH SCHOOL, INCORPORATED

## Consolidated Statements of Cash Flows - cont'd.

<i>For the Years Ended June 30,</i>	<i>2018</i>	<i>2017</i>
Cash Flows from Investing Activities		
Proceeds from sale of investments	8,077,501	37,013,465
Purchases of investments	(5,524,714)	(33,999,197)
Proceeds from sale of land, buildings and equipment	1,500	-
Purchases of land, buildings and equipment	(12,445,815)	(1,937,509)
Issuances and repayments of other receivables, net	(382,159)	(201,894)
Increase in charitable remainder unitrusts	(470,472)	(678,167)
Proceeds from sale of assets held in annuity trusts	60,023	-
Net Cash and Cash Equivalents Provided by (Used in) Investing Activities	(10,684,136)	196,698
Cash Flows from Financing Activities		
Contributions designated for capital improvements	7,428,252	3,017,183
Permanently restricted contributions	3,007,929	1,172,455
Principal payments on industrial revenue bonds	(6,706,995)	(687,346)
Net Cash and Cash Equivalents Provided by Financing Activities	3,729,186	3,502,292
Net Increase (Decrease) in Cash and Cash Equivalents	(10,484,742)	2,362,617
Cash and Cash Equivalents, beginning of year	15,278,280	12,915,663
Cash and Cash Equivalents, end of year	\$ 4,793,538	\$ 15,278,280
<b>Supplemental Disclosures of Cash Flow Information</b>		
Interest paid	\$ 1,127,147	\$ 1,089,562
<b>Noncash Investing and Financing Activities</b>		
Capital expenditures incurred but not paid	\$ 1,328,471	\$ -

*The accompanying notes are an integral part of these consolidated financial statements.*

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Description of the Organization

McDonogh School, Incorporated (McDonogh), a private school located in Owings Mills, Maryland, was established in 1873. McDonogh is a nonprofit organization incorporated in the state of Maryland. McDonogh's enrollment in grades pre-kindergarten through twelve was 1,384 and 1,369 for the years ended June 30, 2018 and 2017, respectively.

During the year ended June 30, 2011, McDonogh formed a wholly-owned subsidiary, Folio Network, LLC (Folio). Folio, a for-profit company, created performance appraisal software for schools, from which it receives royalty income.

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of McDonogh and its subsidiary, Folio Network, LLC (collectively, the School). All significant intercompany accounts and transactions have been eliminated from the consolidated financial statements.

#### Basis of Accounting

The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

The financial statement presentation is in accordance with the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*. Under ASC 958-205, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

*Unrestricted net assets* - Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

*Temporarily restricted net assets* - Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. Any temporarily restricted resource that is received and used during the same year is considered an unrestricted resource and is reported as unrestricted support.

*Permanently restricted net assets* - Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the School's actions. Although the principal may not be used, revenue earned from these restricted assets may be used based on donor-imposed stipulations.

# **McDONOGH SCHOOL, INCORPORATED**

## **Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017**

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### **1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd.**

#### **Contributions**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the School's incurrence of donor-specified expenses, temporarily restricted net assets are reclassified to unrestricted net assets.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less at the time of purchase.

#### **Credit Risk**

The School maintains its cash and cash equivalents in two commercial banks and a brokerage subsidiary ("brokerage account") of one of the commercial banks. Accounts of commercial banks are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. At various times during the years ended June 30, 2018 and 2017, the School held amounts on deposit at various financial institutions in excess of the maximum amount insured by the FDIC. The School has not experienced any losses and believes it is not exposed to any significant credit risk with respect to its cash. The brokerage account is protected for the net equity of securities positions and cash. Of that total, the Securities Investor Protection Corporation (SIPC) provides \$500,000 of net equity protection. Working on behalf of the securities brokerage, the clearing firm provides the additional protection (excess SIPC) on terms similar to SIPC for account net equity in excess of \$500,000 through a commercial insurer. The School also has cash balances with Higher Education Services in a Pennsylvania Treasury Department account, which are not guaranteed by the FDIC. As of June 30, 2018 and 2017, cash and cash equivalents held in this account totaled \$1,192,165 and \$2,091,369, respectively.

#### **Accounts Receivable, Revenue, and Fees Collected in Advance**

Accounts receivable are unsecured and carried at original invoice amount less an estimated allowance for doubtful receivables based on a review of all outstanding amounts on an annual basis. Management determines the allowance for doubtful accounts by regularly evaluating individual receivables and considering financial condition, credit history, and current economic conditions. The allowance for doubtful accounts receivable totaled \$340,411 and \$294,367 as of June 30, 2018 and 2017, respectively. Accounts receivable are written off when deemed uncollectable. Recoveries of tuition and fees previously written off are recorded when received. Accounts receivable are considered to be past due if any portion of the receivable balance is outstanding for more than 90 days.

The provision for doubtful accounts receivable totaled \$119,963 and \$193,028 for the years ended June 30, 2018 and 2017, respectively.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd.

#### **Accounts Receivable, Revenue, and Fees Collected in Advance – cont'd.**

Student tuition and fees are recognized during the School year. The School recognizes summer camp program revenues and the related expenses in the period in which the program is completed.

Deposits or pre-payments for subsequent academic years are recorded as fees collected in advance in the accompanying consolidated statements of financial position.

#### **Pledges Receivable and Contributions**

Pledges receivable are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. In accordance with ASC 958-310, *Not-for-Profit Entities: Receivables*, pledges receivable in a future period are discounted to their net present value at the time the revenue is recorded.

The School uses the allowance method to determine the reserve for uncollectable pledges receivable. The allowance is based on historical experience and management's analysis of specific promises made.

#### **Investments and Investment Revenue**

The School reports its investments at fair value, and any realized and unrealized gains and losses and investment revenue are recorded in the consolidated statements of activities as a change in unrestricted net assets, unless their use is restricted by explicit donor-imposed stipulations or by law. Investments that do not have an established fair value are reported at estimated fair value. Certain investments are effectively restricted as to use to the extent of permanently and temporarily restricted net assets.

#### **Investment Risks and Uncertainties**

The School invests in various investment securities. Investment securities are subjected to risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd.

#### Land, Buildings and Equipment

Property and equipment purchased by the School and recorded in the consolidated financial statements is stated at cost or fair value if donated, less accumulated depreciation. The School's policy is to capitalize property and equipment with a cost or donated fair value of \$10,000 and greater. Interest on debt related to construction is capitalized as construction in progress until construction is substantially completed. Depreciation is recorded on a straight-line basis over the following useful lives:

Buildings and Land Improvements	5-45 years
Furniture, Fixtures and Equipment	5-25 years
Vehicles	5 years
Computers and Technology	5-15 years

When assets are retired or otherwise disposed, the cost and related accumulated depreciation and amortization are removed from the accounts. Any resulting gain or loss is reflected in operations for the period in which the asset was disposed. The cost of maintenance and repairs is charged to operations as incurred whereas significant renewals and betterments are capitalized.

#### Valuation of Long-Lived Assets

The School accounts for the valuation of long-lived assets under ASC 360, *Property, Plant and Equipment*. ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed are reported at the lower of the carrying amount or fair value, less costs to sell. As of June 30, 2018, management did not believe any long-lived assets were impaired and did not identify any assets as being held for disposal. As of June 30, 2017, management believed long-lived assets related to buildings for campus housing were impaired. These buildings, with a carrying amount of \$339,698 as of June 30, 2017, were demolished during July 2017. The School recorded an impairment loss totaling \$339,698 (included in depreciation expense) on these assets during the year ended June 30, 2017, thereby reducing the carrying amount of these assets to \$0 as of June 30, 2017.

#### Land Development Costs

Development costs incurred on land owned and leased by the School are recorded at cost and amortized on a straight-line basis over the related lease terms.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd.

#### Deferred Financing Costs

In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This update requires that debt issuance costs be presented in the statement of financial position as a reduction from the related debt liability rather than as an asset, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015. The School adopted this ASU during the year ended June 30, 2017. As a result of the adoption of ASU 2015-03, the industrial revenue bonds on the accompanying consolidated statements of financial position have been reduced by net deferred financing costs totaling \$260,646 and \$289,007 (Note 10) as of June 30, 2018 and 2017, respectively. The adoption of this ASU had no impact on the consolidated statements of activities or cash flows.

Deferred financing costs are being amortized over the life of the bonds using the effective interest method. As part of the 2011 bond issuance, the School incurred financing costs totaling \$457,748 during the year ended June 30, 2012. As part of the 2013 bond issuance, the School incurred financing costs totaling \$137,119 during the year ended June 30, 2014. Amortization of deferred financing costs was capitalized as construction in progress until construction of the Campus Master Plan was substantially completed in October 2014. Amortization of deferred financing costs totaled \$28,361 and \$28,877 during the years ended June 30, 2018 and 2017, respectively.

#### Interest Rate Swap Contracts

The School recognizes its derivative instruments as either assets or liabilities at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualified as part of a hedging relationship and, furthermore, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the School designates the hedging instrument as a fair value hedge.

For derivative instruments that are designated and qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the statements of activities during the period of the change in fair values.

#### Deferred Leasehold Revenue

Under the terms of leases held by the School, the School received one-time up-front payments, which are recorded as deferred revenue and are being recognized over the life of the leases.



# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd.

#### Income Taxes

The School is a nonprofit organization exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, the School qualifies for charitable contribution deductions under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1). Income, which is not related to exempt purposes, less applicable deductions, is subject to Federal and state corporate income taxes. The School had no significant unrelated business income during the years ended June 30, 2018 and 2017.

ASC 740, *Income Taxes*, prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return, as well as guidance on de-recognition, classification, interest and penalties and financial statement reporting disclosures. For these benefits to be recognized, a tax position must be more-likely-than not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

The School recognizes interest and penalties accrued on any unrecognized tax exposures as a component of income tax expense. The School does not have any amounts accrued relating to interest and penalties as of June 30, 2018 and 2017.

The School's unrelated business income, if any, is subject to taxation in various jurisdictions. The School is subject to routine audits by U.S. Federal authorities and various state authorities; however, there are currently no audits for any tax periods in progress.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of 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 may vary from those estimates.

#### Fair Value of Financial Instruments

The carrying amount of financial instruments, including cash and cash equivalents, accounts receivable, trade accounts payable and other liabilities approximate fair value because of the short maturity of these instruments. The carrying amount of the bonds payable approximates fair value because the interest rate on these instruments is based on the current rates offered to the School for debt with similar terms and maturities.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd.

#### Fair Value Measurement

ASC 820, *Fair Value Measurement*, defines fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

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

Level 2      Inputs to the valuation methodology include:

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

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

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

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

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

*Money market funds and mutual funds:* Valued at the closing price reported in the active market in which the funds are offered (open-end mutual fund) or traded (closed-end mutual fund), as appropriate.

*Investments in U.S. Treasury securities and equivalents:* Valued at the most recent bid price of the equivalent quoted yield for such securities or those of comparable maturity, quality, and type. The School's investments in these securities consist of U.S. Treasury stripped interest securities and stripped principal payment securities.

*Investments in Limited Partnerships:* Valued utilizing the net asset valuations provided by the general partners and/or their administrators. The School's management considers subscription and redemption rights, including any restrictions on the disposition of the interest, in its determination of fair value.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd.

#### Fair Value Measurement - cont'd.

*Investments in hedge funds:* Valued at net asset valuation based upon valuation models, discounted cash flow models or other valuation techniques that are believed to be used by market participants. Transactions are individually negotiated and unique, and there is no market in which these assets trade.

*Charitable remainder unitrusts:* The fair value is determined as the present value of future cash flows discounted at an interest rate that reflects the risks inherent in those cash flows. Cash flows are based on the contractual payout rates of the agreements over a time period determined based on the current age of the annuitants and mortality tables.

*Assets held in annuity trusts and annuity obligations:* Assets held in annuity trusts are valued at the closing price reported in the active market in which the individual securities are traded. Annuity obligations are valued at the present value of future cash flows discounted at an interest rate that reflects the risks inherent in those cash flows. For remainder trusts, cash flows are based on the contractual payout rates of the agreements over a time period determined based on the current age of the annuitants and mortality tables.

*Interest rate swap agreement:* The fair value of the interest rate swap agreement is the estimated amount that the School would receive or pay to terminate the agreement at the reporting date. The fair value of the interest rate swap is determined using pricing models developed based on the contractual terms of the swap, current interest rates, and other observable market data. The value is adjusted to reflect nonperformance risk of the counterparty or the School.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used as of June 30, 2018 and 2017, respectively.

Alternative investments are classified as Level 1, 2, or 3 based on the School's ability to redeem its interest at or near June 30. If the School has the ability to redeem its interest at net asset value or its equivalent daily, it is classified as Level 1. If the School has the ability to redeem its interest at net asset value or its equivalent within three months of June 30, the investment is classified as Level 2. All other alternative investments are classified as Level 3. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks or degree of difficulty in estimating the fair value of each investment's underlying assets or liabilities.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd.

#### Fair Value Measurement - cont'd.

The following tables present assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,039,939	\$ -	\$ -	\$ 1,039,939
Investments in U.S. Treasury securities and equivalents	-	10,050,751	-	10,050,751
Mutual funds	90,587,081	-	-	90,587,081
Charitable remainder unitrusts	-	4,145,015	-	4,145,015
Assets held in annuity trusts	-	1,799,397	-	1,799,397
Interest rate swap agreement	-	(55,668)	-	(55,668)
Annuities payable	-	(816,242)	-	(816,242)
Total assets and liabilities, at fair value	\$ 91,627,020	\$ 15,123,253	\$ -	\$ 106,750,273
Investments in limited partnerships*	n/a	n/a	n/a	1,768,601
Investments in hedge funds*	n/a	n/a	n/a	6,345,382
Total	\$ 91,627,020	\$ 15,123,253	\$ -	\$ 114,864,256

\* In accordance with ASC 820-10, certain investments that were measured at net asset value per share (or its equivalent) using the practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd.

#### Fair Value Measurement - cont'd.

The following tables present assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,148,782	\$ -	\$ -	\$ 1,148,782
Investments in U.S. Treasury securities and equivalents	-	9,925,968	-	9,925,968
Mutual funds	84,479,502	-	-	84,479,502
Charitable remainder unitrusts	-	3,674,543	-	3,674,543
Assets held in annuity trusts	-	1,842,378	-	1,842,378
Interest rate swap agreement	-	(336,704)	-	(336,704)
Annuities payable	-	(809,957)	-	(809,957)
Total assets and liabilities, at fair value	\$ 85,628,284	\$ 14,296,228	\$ -	\$ 99,924,512
Investments in limited partnerships*	n/a	n/a	n/a	2,091,721
Investments in hedge funds*	n/a	n/a	n/a	5,980,520
Total	\$ 85,628,284	\$ 14,296,228	\$ -	\$ 107,996,753

\* In accordance with ASC 820-10, certain investments that were measured at net asset value per share (or its equivalent) using the practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd.

#### Fair Value Measurement - cont'd.

The School invests in certain entities for which the net asset value per share, or its equivalent, has been used to estimate fair value. The table below summarizes these investments as well as the strategies, redemptions, and unfunded commitments related to such investments as of June 30, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Limited partnership interests (a)	\$ 1,768,601	\$ 291,745	N/A	N/A
Hedge funds (b)	\$ 6,345,382	N/A	Quarterly	91 days

The table below summarizes these investments as well as the strategies, redemptions, and unfunded commitments related to such investments as of June 30, 2017:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Limited partnership interests (a)	\$ 2,091,721	\$ 337,495	N/A	N/A
Hedge funds (b)	\$ 5,980,520	N/A	Quarterly	91 days

(a) This category includes investments in limited partnerships that invest in real estate, venture capital and private equity funds. Distributions are made to investors through the liquidation of the underlying assets.

(b) This category includes investments in hedge funds that seek long-term risk-adjusted absolute returns by investing primarily through a portfolio of investment vehicles managed by trading advisors. The fair value of the investments in this category has been estimated using the percentage ownership in shareholders' capital.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd.

#### Recently Issued Accounting Pronouncements

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also removes certain disclosure requirements for investments that calculate net asset value per share and do not use the practical expedient. ASU 2015-07 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016, with early adoption permitted, and should be retrospectively applied to all periods presented. Management has adopted ASU 2015-07 and, as such, has removed investments that calculate the net asset value per share practical expedient from the fair value hierarchy.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which amends the existing accounting standards for revenue recognition. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605 and most industry-specific guidance throughout the Industry Topics in the ASC. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

In August 2015, the FASB deferred the effective date of the revenue recognition guidance for public entities to reporting periods beginning after December 15, 2017. Early adoption is permitted. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. Management is currently evaluating the timing of its adoption and the impact of adopting the new revenue standard on its consolidated financial statements.

The FASB issued ASU 2016-02, *Leases (Topic 842)*, which will be effective for fiscal years beginning after December 15, 2018. The distinction between finance leases (previously capital leases) and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous leases guidance. Lessor accounting is largely unchanged. For lessees, leases under both categories will be reported on the statement of financial position as a depreciable right-to-use asset and a liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. The asset will be depreciated and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. Management has elected not to early adopt ASU 2016-02 and will assess the future impact on any leases.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd.

#### Recently Issued Accounting Pronouncements - cont'd.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities* which is effective for fiscal years beginning after December 15, 2017. The primary impacts of ASU 2016-14 are as follows: a) Net Asset Classification: The three categories of net assets will be condensed to two categories: Without Donor Restrictions and With Donor Restrictions. Not-for-profits may choose to disaggregate net assets further within the two categories. b) Board-Designated Net Assets: Not-for-profits will need to disclose the amount, purpose, and type of board designations either on the face of the financials or in the notes to the financial statements. Board-designated net assets remain a subgroup of net assets without donor restrictions. c) Underwater Endowment Assets: Although the underwater calculation remains unchanged, instead of classifying the underwater portion against unrestricted net assets, it will go against the Net Assets With Donor Restrictions. There are also certain additional disclosures such as any board policy or actions taken regarding appropriation from such funds. d) Cash Flow Statement: Not-for-profits will still have the option of presenting operating cash flows using the direct method or the indirect method. If the direct method is chosen, the indirect reconciliation is not required. e) Expenses: Expenses will be required to be presented both by function and by nature, but it is flexible as to how (in statement form vs. in the footnotes). A qualitative disclosure about how costs are allocated by function will also be required. External and internal direct investment expenses will be netted against investment return on the statement of activities. Disclosure of investment return components will no longer be required. f) Liquidity and Availability: The ASU will require (1) quantitative disclosure about availability of financial assets to meet cash needs for general expenditures within one year of the statement of financial position date, and (2) qualitative disclosure about liquidity, presented in the notes, including information about liquidity risk and how the liquid available resources are managed. Management has chosen not to early adopt ASU 2016-14 but will assess the impact on future financial statements.

#### Reclassification

Certain amounts presented in the prior year's financial statements have been reclassified to conform to the current year presentation. The reclassification had no effect on previously reported change in net assets or net assets.

#### Subsequent Events

The School evaluated for disclosure any subsequent events through October 17, 2018, the date on which the consolidated financial statements were available to be issued, and determined there were no material events that warrant disclosure.



# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

### 2. PLEDGES RECEIVABLE

Pledges receivable consist of the following as of June 30:

	2018	2017
Gross pledges receivable	\$ 4,586,484	\$ 3,701,860
Less: allowance for uncollectable pledges	(406,508)	(256,087)
Less: unamortized discount	(168,558)	(122,498)
Pledges receivable, net	\$ 4,011,418	\$ 3,323,275

The payment schedules of the pledges receivable are scheduled as follows as of June 30:

	2018	2017
Less than one year	\$ 393,339	\$ 422,453
One to five years	4,072,545	3,272,707
More than five years	120,600	6,700
Gross pledges receivable	\$ 4,586,484	\$ 3,701,860

Unconditional pledges due in more than one year are recorded at the present value of future cash flows using the School's incremental borrowing rate at the time the pledge is made. The incremental borrowing rate of the School was 2.84% as of June 30, 2018 and 2017. Pledges receivable are payable at the discretion of the donors.

The provision for uncollectable pledges receivable totaled \$463,013 for the year ended June 30, 2018. The recovery of uncollectable pledges receivable totaled \$43,752 for the year ended June 30, 2017.

### 3. INVESTMENTS

Investments are combined in a portfolio which consist of the following as of June 30:

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 1,039,939	\$ 1,039,939	\$ 1,148,782	\$ 1,148,782
U.S. Treasury securities and equivalents	10,050,751	9,803,268	9,925,968	9,486,393
Mutual funds	90,587,081	75,961,372	84,479,502	72,778,178
Limited partnerships	1,768,601	2,809,003	2,091,721	2,988,663
Hedge funds	6,345,382	5,382,201	5,980,520	5,382,201
	\$ 109,791,754	\$ 94,995,783	\$ 103,626,493	\$ 91,784,217

Investment fees totaled \$99,046 and \$63,745 for the years ended June 30, 2018 and 2017, respectively, and are included as a reduction in investment revenue on the consolidated statements of activities.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

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### 3. INVESTMENTS - cont'd.

ASC 958-205 establishes a framework on the net asset classification of donor-restricted endowment funds for any not-for-profit organization that is subject to a state enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and requires expanded disclosures for all endowment funds.

The School's endowments consist of 201 funds established to support a variety of scholarships and professional development at the School. Its endowments consist of both donor-restricted endowment funds and funds designated by the Board of Trustees (the Board) to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, the School classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment; and,
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School's Board. In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the School and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from revenue and the appreciation of investments
6. Other resources of the School
7. The investment policies of the School

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by the endowments. The endowment assets are invested in a manner that is intended to produce results similar to the S&P 500 index while assuming a moderate level of investment risk.

The School has a policy of appropriating for distribution each year a percentage of its endowment funds' average fair value over the twelve months preceding six months prior to the fiscal year in which the distribution is planned. For the years ended June 30, 2018 and 2017, the School's appropriation was 5 percent. For the year ended June 30, 2018 and 2017, the School's appropriation on underwater funds was 2.5 percent and 5 percent, respectively.

In establishing this policy, the School considered the long-term expected returns on its endowment investments. Accordingly, the School expects to continue a spending policy that will allow the School to preserve the purchasing power of the endowment over the long term.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

### 3. INVESTMENTS - cont'd.

The School relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield (interest and dividends). The School targets a diversified asset allocation that emphasizes fixed income securities to achieve its long-term objectives within prudent risk constraints.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the School to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$5,533 and \$67,038 as of June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Changes in endowed net assets are as follows for the year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$7,662,404	\$23,476,379	\$37,657,768	\$68,796,551
Investment revenue (including realized losses)	622,639	5,241,933	-	5,864,572
Contributions	32,101	-	1,701,689	1,733,790
Appropriation of endowment assets for expenditure	(291,199)	(2,893,220)	-	(3,184,419)
Net transfer to endowment and other changes	60,022	601,524	545,719	1,207,265
Endowment net assets, end of year	\$8,085,967	\$26,426,616	\$39,905,176	\$74,417,759

During the year ended June 30, 2018, net transfers to endowment and other changes resulted in an increase to endowed net assets totaling \$1,207,265. The increase is the result of changes in donor intent, the transfer from annuity trusts of deceased annuitants and an increase to the present value of a charitable remainder unitrust. The increase in temporarily restricted endowed net assets is mainly due to the School recording the present value of expected future distributions on a charitable remainder unitrust totaling approximately \$448,000. The increase in permanently restricted endowed net assets is mainly due to an amendment to a fund, which changed the fund from a non-endowed temporarily restricted fund to a permanently restricted endowed fund. The increase to permanently restricted endowed net assets as a result of this change totaled approximately \$500,000.

Additionally, the corpus of a fund totaling approximately \$200,000 was recorded as permanently restricted net assets during the year ended June 30, 2017. The temporarily restricted endowed net assets related to this fund were identified and recorded during the year ended June 30, 2018 as an increase to temporarily restricted endowed net assets.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

### 3. INVESTMENTS - cont'd.

Composition of endowed net assets by fund type is as follows as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ (5,533)	\$26,426,616	\$39,905,176	\$66,326,259
Board designated	8,091,500	-	-	8,091,500
Total funds	\$8,085,967	\$26,426,616	\$39,905,176	\$74,417,759

Changes in endowed net assets are as follows for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$7,035,377	\$20,627,178	\$35,931,911	\$63,594,466
Investment revenue (including realized gains)	1,080,147	5,667,807	-	6,747,954
Contributions	23,775	-	1,172,455	1,196,230
Appropriation of endowment assets for expenditure	(476,895)	(2,823,606)	-	(3,300,501)
Net transfer to endowment and other changes	-	5,000	553,402	558,402
Endowment net assets, end of year	\$7,662,404	\$23,476,379	\$37,657,768	\$68,796,551

During the year ended June 30, 2017, net transfers to endowment and other changes resulted in an increase to endowed net assets totaling \$558,402. The increase is the result of changes in donor intent, excess contributions from prior years exceeding project costs, and the transfer from an annuity trust with a deceased annuitant. Additionally, donor documentation found for one fund was reviewed, which resulted in an increase to permanently restricted net assets. The corpus of the fund totaled approximately \$200,000 and was recorded during the year ended June 30, 2017.

Composition of endowed net assets by fund type is as follows as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ (67,038)	\$23,476,379	\$37,657,768	\$61,067,109
Board designated	7,729,442	-	-	7,729,442
Total funds	\$7,662,404	\$23,476,379	\$37,657,768	\$68,796,551

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

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### 4. ANNUITY TRUSTS

The School holds annuity trusts that consist of funds contributed to the School subject to the requirement that the School periodically pay amounts ranging from 5% to 8% of the face amount of the annuity or actual amounts earned on the assets to designated beneficiaries. Such payments terminate upon the death of the donor. The fair value of underlying investments of the assets held in the annuity trusts totaled \$1,799,397 and \$1,842,378 as of June 30, 2018 and 2017, respectively. The payable related to these trusts was \$816,242 and \$809,957 as of June 30, 2018 and 2017, respectively. The payable was calculated by discounting the estimated future cash flows using discount rates of 3.4% and 2.4% as of June 30, 2018 and 2017, respectively.

### 5. CONDITIONAL PROMISE TO GIVE

In September 2010, the School entered into an agreement with a donor for a conditional promise to receive \$48,000,000, due in \$1,600,000 increments over a thirty year period. The gift is contingent upon meeting certain conditions including, but not limited to, matching fund requirements, reaching a minimum operating level, and maintaining a certain debt to investment ratio. Since this gift represents a conditional promise to give, it is not recorded as contribution revenue until the donor conditions are met. The School recognized \$1,600,000 as contribution revenue during each of the years ended June 30, 2018 and 2017, as the conditions within the agreement were substantially met. Through June 30, 2018, the School has recognized a total of \$12,800,000 as contribution revenue from this gift.

### 6. CHARITABLE REMAINDER UNITRUSTS

Charitable remainder unitrusts include four irrevocable charitable remainder unitrusts which were established to benefit the School after the death of the donors. Charitable remainder unitrusts have been recorded at the present value of the assets and future cash flows which have been discounted based on life expectancy of the donors or as specified in the agreement and discount rates of 2.87% and 1.63% as of June 30, 2018 and 2017, respectively.

### 7. OTHER RECEIVABLES

As of June 30, 2018 and 2017, other receivables consist of tuition loans provided to qualifying students based on financial need. Tuition loans are currently extended to parents under three programs, which were discontinued during the year ended June 30, 2018. Loans extended under each program generally have specific repayment requirements and characteristics. Interest rates range from 0% to 8%. Management determines the allowance for uncollectable accounts by evaluating individual loan balances and considering payment history and the specifications of the loan given. Tuition loans consist of the following as of June 30:

	2018	2017
Tuition loans	\$ 123,231	\$ 279,268
Allowance for uncollectable accounts	(68,070)	(170,400)
Total tuition loans, net	\$ 55,161	\$ 108,868

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

### 7. OTHER RECEIVABLES - cont'd.

A summary of activity of the tuition loans is as follows for the years ended June 30:

	2018	2017
Beginning balance	\$ 279,268	\$ 452,288
Plus: loans disbursed	-	55,500
Less: principal payments received	(50,761)	(97,615)
Less: loans written off as uncollectible	(105,276)	(130,905)
Ending balance	\$ 123,231	\$ 279,268

As of June 30, 2018 and 2017, other receivables also includes a receivable due to Folio totaling \$686,442 and \$250,000, respectively. The \$250,000 receivable was paid in full during the year ended June 30, 2018. The \$686,442 receivable is due in three annual installments, with the first installment paid during August 2018. This receivable is deemed fully collectible.

### 8. LAND DEVELOPMENT COSTS

The School designated a portion of its land for development at its Owings Mills Corporate Campus. The remaining unleased developable land is recorded at cost because the School has no current intent to develop the land.

Land development costs consist of the following as of June 30:

	2018	2017
Direct and indirect costs of developing the property:		
Leased portion	\$ 5,071,904	\$ 5,071,904
Unleased portion	1,654,372	1,654,372
Leasing costs	1,577,695	1,577,695
	8,303,971	8,303,971
Less: accumulated amortization of development and lease costs	3,568,054	3,433,829
Land development costs, net	\$ 4,735,917	\$ 4,870,142

Amortization of development and lease costs totaled \$134,225 and \$134,516 for the years ended June 30, 2018 and 2017, respectively. Indirect land development costs have been allocated to the leased parcels based on the relative number of acres leased to the total acres to be developed and leased as part of the entire Owings Mills Corporate Campus project.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

### 8. LAND DEVELOPMENT COSTS - cont'd.

The School has entered into six agreements to lease parcels ranging from 5 to 12 acres of the School's Owings Mills Corporate Campus, each for a term of 50 years expiring through 2052 with the exception of a 7 acre parcel and a 9 acre parcel, which have terms of 99 years expiring in 2089 and 2090, respectively. The lessees have constructed office buildings and related improvements on the land. Under the terms of the leases, the School has received one-time rent payments aggregating \$9,408,265, of which \$5,337,375 and \$5,474,503 remains unamortized as of June 30, 2018 and 2017, respectively.

Except for the 99 year term leases, each lessee has the option to extend the lease for an additional 20 year period. The options are exercisable shortly before the expiration of the initial lease terms at then-prevailing rental rates. With respect to a 12 acre parcel, the lessee has an option to lease an additional 0.7 acre of land for approximately \$285,000 per year. Upon expiration of the leases, ownership of all properties and improvements constructed by the lessees will revert to the School.

### 9. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following as of June 30:

	2018	2017
Land	\$ 76,038	\$ 76,038
Land improvements	21,222,765	20,703,380
Buildings	81,371,913	82,407,158
Furniture, fixtures and equipment	5,106,789	4,911,905
Vehicles	3,494,587	3,227,567
Computers and technology	1,568,903	1,557,548
Construction in progress	13,858,660	1,343,225
	126,699,655	114,226,821
Less: accumulated depreciation	38,710,332	36,500,341
Land, buildings and equipment, net	\$ 87,989,323	\$ 77,726,480

Depreciation expense totaled \$3,461,276 and \$3,861,509 during the years ended June 30, 2018 and 2017, respectively.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

### 10. INDUSTRIAL REVENUE BONDS

In October 2011, the School borrowed \$38,000,000 in Maryland Industrial Development Financing Authority Variable Rate Demand Revenue Bonds to finance the costs of construction related to the School's Campus Master Plan. The amount borrowed consisted of four bonds: Series A for \$20,000,000 and Series B, C, and D, each for \$6,000,000. Principal payments on the Series A bond will begin in 2019, with a maturity date of September 2040. The Series A bond bears interest at variable rates, which range from 3.0% to 4.75%. The initial interest rate for the Series B bond was 2.0%. The Series B bond interest rate was reset to 1.10% in September 2013. The Series B bond interest rate was reset again in September 2015 to 0.95%. The rate was effective through August 31, 2017, at which time the Series B bond was redeemed in full. The interest rate for the Series C bond was 2.0%. The Series C bond was paid in full in August 2014. The interest rate for the Series D bond was 2.0%. The Series D bond was paid in full in August 2015.

The School received a premium of \$662,174 in connection with the issuance of the 2011 bonds, which is being amortized over the life of the bonds. Amortization of premiums received was capitalized in construction in progress until the assets were placed in service and is now recorded as a part of interest expense. Amortization of premiums received totaled \$18,717 and \$18,106 during the years ended June 30, 2018 and 2017, respectively.

In December 2013, the School borrowed \$11,800,000 in Maryland Industrial Development Financing Authority Economic Development Refunding Revenue Bonds to redeem the variable rate 2005 Series bonds which had a principal balance of \$11,745,000. Closing costs of \$55,000 were included in the principal balance of the 2013 Series bonds. Principal and interest payments are made monthly until the bonds mature in December 2028. The bonds bore interest at a rate of 67% of the sum of LIBOR plus 1.32%, which was 1.59% as of June 30, 2017. Effective January 1, 2018, the interest rate was amended as a result of the change in the corporate tax law to 81.43% of the sum of LIBOR plus 1.08%, which was 2.69% as of June 30, 2018.

As of June 30, 2018, future maturities of industrial revenue bonds are as follows:

Years Ending June 30,	
2019	\$ 1,617,337
2020	1,663,264
2021	1,629,794
2022	1,336,943
2023	1,359,729
Thereafter	21,163,579
	28,770,646
Plus: unamortized bond premium	235,923
Less: unamortized deferred financing costs	(260,646)
Total industrial revenue bonds	\$ 28,745,923



# **McDONOGH SCHOOL, INCORPORATED**

## **Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017**

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### **11. LINE OF CREDIT**

The School has a line of credit agreement with a bank. Maximum borrowings under the line of credit are \$3,250,000. The line of credit bears interest at LIBOR plus 100 basis points. There were no borrowings on the line of credit as of June 30, 2018 and 2017. However, portions of the line of credit are reserved and cannot be drawn upon as a result of the sublimit of the letters of credit.

### **12. LETTERS OF CREDIT**

The School has a surety bond in the amount of \$246,347 that is payable to the beneficiary, the State of Maryland, Department of Labor, Licensing and Regulation. This surety bond is in place due to the fact that the School does not pay into the unemployment fund for the State of Maryland. Rather, the School pays unemployment benefits as incurred. This surety bond serves as the collateral requirement as calculated by the State and was based on the greater of average unemployment benefits charged to the School's account during the previous two years or the total taxable wages reported during the previous fiscal year times the collateral rate. Subsequent to year end, the surety bond was increased to \$260,039 and extended to September 30, 2020.

The School is named as the accountable party on four letters of credit with a bank totaling \$270,965 with expirations dates ranging from March 2019 through May 2019. The letters of credit are payable to Baltimore County, and are related to various projects on the School's campus. As of June 30, 2018, there have been no draws on these letters of credit.

### **13. INTEREST RATE SWAP AGREEMENT**

In December 2013, the School entered into an interest rate swap (swap) agreement with respect to the 2013 Series bonds for the notional amount of \$11,800,000. The swap agreement utilized by the School effectively modified the School's exposure to interest rate risk by converting the School's floating rate debt to a fixed rate of 2.84%. As a result of the change in the interest rate effective January 1, 2018, the swap covers only a portion of the variable interest rate on the bonds. As of June 30 2018 and 2017, the fair value of the swap was a liability of the School of \$55,668 and \$336,704, respectively. The School recognized a gain of \$281,036 and \$462,577 related to this hedging instrument during the years ended June 30, 2018 and 2017, respectively. The School is exposed to credit loss in the event of nonperformance by the bank on the swap agreement. However, the School does not anticipate any nonperformance by the bank.

### **14. RETIREMENT PLAN**

The School maintains a 403(b) defined contribution retirement plan, which employees may contribute to as soon as they are hired. After a year of service with a minimum of 1000 hours, employees become eligible for contributions from the School. The provisions of the plan designate that employees with 1-15 years of service will receive contributions from the School equal to 5% of their base compensation, as defined by the plan. Employees with over 15 years of service will receive contributions equal to 6% of their base compensation. In addition, the plan offers a voluntary matching program. The matching program designates that the school will contribute 25% of the employee contribution amount of up to 5% of their gross earnings.

The School's retirement expense totaled \$1,153,184 and \$1,144,037 during the years ended June 30, 2018 and 2017, respectively.

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

### 15. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of June 30:

	2018	2017
Financial aid, faculty salaries and professional development	\$ 33,686,368	\$ 31,444,736
Capital improvements	1,151,624	2,966,614
Charitable remainder unitrusts	4,145,015	3,674,543
Total	\$ 38,983,007	\$ 38,085,893

Temporarily restricted net assets released from restrictions were used for the following purposes during the years ended June 30:

	2018	2017
Financial aid, faculty salaries and professional development	\$ 4,028,682	\$ 4,765,039
Capital improvements	7,733,451	2,841,219
Agency and other funds	-	353,386
Total	\$ 11,762,133	\$ 7,959,644

### 16. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the programs and activities of the School have been summarized on a natural basis in the consolidated statements of activities. Accounting standards also require costs to be allocated between the program and supporting services benefited on a functional basis. Expenses have been allocated on a functional basis by program, management and general, and fundraising categories.

Expenses have been allocated as follows for the years ended June 30:

	2018	2017
Program services	\$ 38,666,938	\$ 37,982,540
Management and general	7,306,235	5,812,890
Fundraising	1,841,123	1,703,179
Total	\$ 47,814,296	\$ 45,498,609

# McDONOGH SCHOOL, INCORPORATED

## Notes to the Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

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### 17. COMMITMENTS AND CONTINGENCIES

#### Litigation

Lawsuits and claims are filed against the School from time to time in the ordinary course of business. There are certain actions in various stages of legal review and no judgments or decisions have been rendered by hearing boards or courts. Management of the School, after reviewing developments to date with legal counsel, is of the opinion that the outcome of such matters will not have a material adverse effect on the School's financial position or results of operations or cash flows.

#### Operating Leases

The School leases two vehicles under one noncancellable lease agreement. The lease agreement requires monthly rent of \$1,058 and expires in February 2019.

The School leases a postage meter under a noncancellable lease agreement. The lease agreement requires monthly rent of \$743 and expires in August 2019.

The School leases a copier under a noncancellable lease agreement. The lease agreements requires quarterly rent totaling \$346 and expires in November 2018.

Rent expense totaled \$71,540 and \$67,998 for the years ended June 30, 2018 and 2017, respectively. Future minimum payments under the operating leases are as follows:

Year Ending June 30,	
2019	\$ 17,728
2020	1,486
	<u>\$ 19,214</u>

### 18. LICENSE AGREEMENT

Folio earns royalty income under a licensing agreement originally entered into on April 2, 2012. On January 1, 2018, the terms of the agreement were amended to establish a schedule for the licensee to repay the unpaid balance of deferred royalty payments and determine a new basis for calculating the royalty fee going forward.

Under the amended agreement, the licensee is required to repay the unpaid deferred royalty, totaling \$683,000, in equal annual installments, over a period of three fiscal years without interest, with the first payment due in the fiscal year commencing July 1, 2018. The licensee must also pay an annual royalty based on membership revenue as defined in the agreement.

The initial term of the agreement runs through April 2, 2037 and shall renew automatically for successive one-year terms.

During the years ended June 30, 2018 and 2017, Folio recognized \$686,443 and \$272,000 of royalty income, respectively.

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## **APPENDIX C**

### **DEFINITIONS AND SUMMARIES OF CERTAIN DOCUMENTS**

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## DEFINITIONS AND SUMMARIES OF CERTAIN DOCUMENTS

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## DEFINITIONS OF CERTAIN TERMS

In addition to terms defined elsewhere in this Official Statement (including terms defined under the heading “Summary of Certain Provisions of the Collateral Agency Agreement” in this Appendix C), the following are definitions of certain terms contained in this Official Statement. Terms used but not defined herein shall have the meanings set forth in the Indenture, the Loan Agreement and the Collateral Agency Agreement.

“Act” means, collectively, the MIDFA Act and the Revenue Bond Act.

“Additional Bonds” means the bonds of the Issuer issued pursuant to the Indenture as described in “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Additional Bonds (Section 2.05)” of this Official Statement.

“Additional Facilities” means any project undertaken by the Borrower that is financed or refinanced pursuant to the Act and the Indenture by the Issuer by the issuance of Additional Bonds including (without limitation) land, easements, rights-of-way, leaseholds and other interests in real property and any improvement of the Property.

“Administrative Expenditures” means any reasonable fees and expenses of the Trustee (whether as Trustee, Paying Agent or Registrar for the Bonds), and all expenditures incurred by the Issuer by reason of its issuance of any Bonds, including (without limitation) legal, financing and administrative expenses and expenses incurred by the Issuer or the Trustee to compel full and punctual performance of the provisions of the Loan Agreement in accordance with the terms thereof.

“Agency Obligations” means direct obligations (including bonds, notes or participation certificates) of, or obligations the principal of and the interest on which are unconditionally guaranteed by, any agency or instrumentality of the United States of America, including, without limitation and without regard to any ratings: (i) the Federal Home Loan Banks, Federal National Mortgage Association, the Government National Mortgage Association, the Export-Import Bank of the United States, the Tennessee Valley Authority, the Federal Financing Bank, the United States Postal Service and the Rural Economic Community Development Administration, and (ii) either on a consolidated or system-wide basis, Federal Land Banks, Federal Intermediate Credit Banks or Federal Banks for Cooperatives.

“Architect” means, with respect to any particular component of the 2019 Facility or Additional Facilities, the architect engaged by the Borrower with respect to such component.

“Authorized Baltimore Newspaper” means a daily newspaper printed in the English language and having a general circulation in the City of Baltimore, Maryland, or a financial journal printed in the English language and having a general circulation in the City of Baltimore, Maryland.

“Authorized Denomination” means \$5,000 and any integral multiple thereof.

“Authorized New York Newspaper” means a daily newspaper printed in the English language and having a general circulation in the Borough of Manhattan, City and State of New York, or a financial journal printed in the English language and having a general circulation in the Borough of Manhattan, City and State of New York.

“Authorized Officer” means (i) when used with reference to the Issuer, the Chairman, Vice Chairman, the Secretary or the Executive Director, or such other person at the time designated to act on behalf of the Issuer by written certificate furnished to the Borrower and the Trustee containing the specimen signature of such person and signed on behalf of the Issuer by the Chairman, the Secretary or the Vice Chairman, which certificate may designate alternates, and (ii) when used with reference to the Borrower, the Headmaster or any Vice President.

“Bond” or “Bonds” means the Series 2019 Bonds and any Additional Bonds, collectively.

“Bond Counsel” means Miles & Stockbridge P.C., or any other law firm approved by the Issuer having a national reputation in the field of municipal law, whose legal opinions are generally accepted by purchasers of municipal bonds.

“Bond Documents” means and includes (without limitation) the Bonds, the Indenture, the Loan Agreement, the Bond Purchase Agreement, the Collateral Agency Agreement and any and all other documents which the Issuer, the Borrower, or any other party or parties or their representatives, have executed and delivered, or may hereafter execute and deliver, to evidence or secure the Issuer’s Obligations or the Borrower’s Bond Obligations, or any part thereof, or in connection therewith, together with any and all Supplements thereto.

“Bond Purchase Agreement” means the Bond Purchase Agreement dated February \_\_, 2019, by and among the Issuer, the Borrower and the Underwriter.

“Bond Year” means a period of 12 consecutive months beginning on September 1 in any calendar year in which Bonds are Outstanding and ending on August 31 of the following calendar year.

“Bondholder” means the registered owner of any Bond.

“Book-Entry Form” or “Book-Entry System” means a form or system, as applicable, under which (i) the ownership of beneficial interests in the Series 2019 Bonds may be transferred only through a book-entry and (ii) physical bond certificates in fully registered form are registered only in the name of a Depository or its nominee as holder, with the physical bond certificates “immobilized” in the custody of the Depository.

“Borrower” means McDonogh School, Incorporated, a non-profit Maryland corporation, its successors and assigns.

“Borrower’s Bond Obligations” means the obligations of the Borrower under the Bond Documents to (a) pay the principal of and interest on the Loans as required by the Loan Agreement and any Supplements thereto, when and as the same become due and payable (whether at the stated maturity thereof, or by acceleration of maturity or after notice of redemption or prepayment or otherwise), (b) pay all other payments required by the Bond Documents to be paid by the Borrower to the Issuer, to the Trustee or to others, when and as the same shall become due and payable, and (c) timely perform, observe and comply with all of the terms, covenants, conditions, stipulations, and agreements, express or implied, which the Borrower is required by any of the Bond Documents to perform or observe.

“Borrower’s Tax Certificate” means the Tax Certificate and Compliance Agreement executed and delivered by the Borrower upon the issuance and sale of the Series 2019 Bonds and any other similar certificates executed and delivered by the Borrower upon the issuance and sale of any Additional Bonds.

“Business Day” or “business day” means any day other than a Saturday, Sunday, a legal holiday in the State observed as such by the Trustee or any day on which the New York Stock Exchange is closed.

“Campus” means the Borrower’s campus containing approximately 800 acres located at 8600 McDonogh Road, Baltimore County, Maryland and all buildings, structures and improvements thereon.

“Chairman” means the Chairman of the Issuer or such other person or office to which the principal functions of the Chairman may be transferred.

“Closing Date” means February 21, 2019, the date of the issuance and delivery of the Series 2019 Bonds to the initial purchaser(s) thereof, and any other date on which any Additional Bonds are issued and delivered to the initial purchaser(s) thereof.

“Code” means the Internal Revenue Code of 1986, as amended, and any applicable predecessor statutory provision. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations in effect or proposed from time to time with respect thereto and applicable to the Tax-Exempt Bonds or the use of the proceeds thereof.

“Collateral Agency Agreement” means the Collateral Agency and Security Agreement dated as of October 1, 2011, by and among, inter alia, the Issuer, the Borrower, Series 2011 Bond Trustee, the Collateral Agent and each person that may hereafter become a party thereto as an additional parity obligee, as amended by the First Amendment to Collateral Agency and Security Agreement, together with any Supplements thereto.

“Collateral Agent” means the Person named or appointed as such in the Collateral Agency Agreement. The Collateral Agent is Manufacturers and Traders Trust Company.

“Completion Certificate” means the certificate described in the Loan Agreement, the form of which is attached thereto as Appendix A.

“Construction Contract” means one or more construction contracts entered into between the Borrower and the General Contractor in connection with the construction of the 2019 Facility and any Additional Facilities, together with any and all Supplements thereto.

“Costs” means the costs of acquisition, construction and improvement of all lands, structures, property (real or personal), rights, rights-of-way, franchises, easements and interests acquired by the Borrower for the 2019

Facility or any Additional Facilities; the cost of demolishing or removing any buildings or structures on land so acquired; the cost of all labor, materials, machinery and equipment, financing charges, interest prior to and during construction and for such a limited period after completion of such construction as the Borrower deems advisable, interest and reserves for principal and interest and for extensions, enlargements, additions and improvements; the cost of architectural, engineering, financial and legal services, plans, specifications, studies, surveys, estimates of costs and of revenues, and administrative expenses necessary or incidental to determining the feasibility or practicability of constructing the 2019 Facility or any Additional Facilities; and such other expenses as may be necessary or incidental to the construction and acquisition of the 2019 Facility or any Additional Facilities, the financing or refinancing of such construction and acquisition and the placing of the 2019 Facility or any Additional Facilities in operation.

“Costs of Issuance” means all fees, costs and expenses incurred in connection with the issuance of the Bonds.

“Debt Service Coverage Ratio” means for any Fiscal Year the ratio determined by dividing the Net Revenues Available for Debt Service for such Fiscal Year by the Debt Service Requirements during such Fiscal Year. For purposes of calculating the Debt Service Coverage Ratio for any particular Fiscal Year, there shall be added to the Net Revenues Available for Debt Service for each such fiscal year, any unrestricted funds that have not otherwise been taken into account in such calculation and that are legally available for the payment of debt service.

“Debt Service Requirements” means, with respect to any period, the amounts required in said period to pay, or to be set aside for the payment of, the principal of, or interest on, or required for sinking fund deposits with respect to, all outstanding Long-Term Indebtedness of the Borrower, excepting amounts set aside out of proceeds of the Bonds (or other Long-Term Indebtedness incurred or issued on behalf of the Borrower) for payment of interest. For the purpose of calculating Debt Service Requirements, the following provisions shall apply:

(i) For the purpose of ascertaining aggregate Debt Service Requirements, interest shall be computed to mandatory redemption dates to the extent that Long-Term Indebtedness is required to be redeemed by mandatory redemption provisions; otherwise interest shall be computed to stated maturity dates.

(ii) For the purpose of computing Debt Service Requirements on any Long-Term Indebtedness for the final twelve-month period prior to the final maturity date for such Long-Term Indebtedness, the amount of such Debt Service Requirements shall be reduced by an amount equal to the amount (if any) then on deposit in the debt service reserve fund for such Long-Term Indebtedness.

(iii) To the extent any Long-Term Indebtedness under consideration shall bear interest at a variable rate, the Debt Service Requirements for such Long-Term Indebtedness shall be calculated assuming an interest rate equal to 40% of *The Bond Buyer* 25-Year Revenue Bond Index then in effect (or, if such index is no longer published, a comparable index); provided, however, that for purposes of any covenant measuring actual debt service coverage during a period under consideration, Long-Term Indebtedness bearing interest at a variable rate shall be deemed to bear interest at the actual rate per annum applicable during such period.

(iv) To the extent any Long-Term Indebtedness under consideration provides that 25% or more of the principal thereof, after giving effect to mandatory prepayment or redemption, is due in a single year or may, at the option of the holder or registered owner thereof, be redeemed or repurchased at one time (and cannot be remarketed), the Borrower shall have the option of (A) considering such Long-Term Indebtedness to be payable on the specified due date or due dates thereof or (B) assuming that such Long-Term Indebtedness shall be payable in equal annual installments of principal and interest over a term equal to the lesser of twenty (20) years or the stated term of such Long-Term Indebtedness and at an interest rate equal to *The Bond Buyer* 25-Year Revenue Bond Index (or, if such index is no longer published, a comparable index) or, in the case of Long-Term Indebtedness bearing interest at a variable rate, at the interest rate established pursuant to paragraph (iii) above. The assumed term of the Long-Term Indebtedness set forth in (B) above shall continue to be used during the year of mandatory prepayment or maturity if the Trustee is provided evidence to its reasonable satisfaction that sufficient funds will be available to pay the amount subject to mandatory prepayment or maturity when the same is due.

(v) Long-Term Indebtedness that is payable from funds available under an escrow deposit (other than amounts so payable solely by reason of the obligor's failure to make payments from other

sources) or funded from the proceeds of such Long-Term Indebtedness (i.e., accrued and capitalized interest) shall be excluded from the determination of Debt Service Requirements.

(vi) with respect to any Guaranty of any Indebtedness that would constitute Long-Term Indebtedness if incurred directly by the Borrower, so long as no default shall have occurred with respect to such Indebtedness and no demand for payment shall have been made under such Guaranty, there shall be excluded the percentage of the Debt Service Requirements of such guaranteed Indebtedness set forth in the following table to the extent that the aggregate income available for debt service (determined on a basis consistent with the determination of Net Income Available for Debt Service under the Indenture) of all primary obligors with respect to such guaranteed Indebtedness for their most recent fiscal year expressed as a percentage of the Maximum Annual Debt Service on all Long-Term Indebtedness with respect to which such persons are primary obligors for such fiscal year (determined on a basis consistent with the determination of Maximum Annual Debt Service on Long-Term Indebtedness under the Indenture) is equal to the amount set forth in the following table:

<u>Income Available for Debt Service as a Percentage of Maximum Annual Debt Service</u>	<u>Percentage of Guaranteed Indebtedness to be Excluded</u>
at least 125%	100%
at least 110% but less than 125%	50%
less than 110%	0%

provided, however, if a default shall have occurred with respect to such Indebtedness or a demand for payment shall have been made under such Guaranty, 100% of debt service requirements of such Indebtedness shall be taken into account in such calculation; and such Indebtedness shall be taken into account only once in calculating the Debt Service Requirements of all Long-Term Indebtedness.

“Defeasance Obligations” means any of the following:

(a) Cash;

(b) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series - “SLGS”);

(c) Pre-Refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or the District of Columbia or of any agency, instrumentality or local governmental unit of any such state or the District of Columbia which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on a date on which proceeds of such obligations are available to pay the redemption price of any Bond;

(i) which are rated, based on an irrevocable escrow account of funds (the “escrow”), in one of the two highest rating categories of any Rating Agency; or

(ii) (A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (b) of the definition of Defeasance Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as the case may be, and (B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant or verification agent, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; and

(d) obligations of any of the following federal agencies (which obligations represent the full faith and credit of the United States of America):

- (i) Rural Economic Community Development Administration
- (ii) General Services Administration
- (iii) Government National Mortgage Association

(iv) Federal Housing Administration

“Department” means the Department of Commerce, a principal department of the State.

“Depository” means any securities depository that is 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, operating and maintaining, with its participants or otherwise, a Book-Entry System to record ownership of beneficial interests in municipal bonds, and to effect transfers of municipal bonds, in Book-Entry Form, and includes and means initially The Depository Trust Company, New York, New York.

“Designated Office” means (i) for purposes of registration, transfer, exchange or payment of the Bonds shall be c/o Wilmington Trust, National Association, Corporate Trust Operations, Attention: Work Flow Management, 1100 North Market Street, Wilmington DE 19890, (ii) for all other purposes, the office of the Trustee at 3951 Westerre Parkway, Suite 300, Richmond, Virginia 23233 and (iii) such other office that may be designated as such, from time to time, by the Trustee in writing to the Issuer, the Borrower, the Paying Agent, the Registrar and the Owners of the Bonds.

“Electronic Notice” means notice transmitted through a time-sharing terminal, if operative as between any two parties, or if not operative, in writing, by facsimile transmission, by email or by telephone (promptly confirmed in writing, by email or by facsimile transmission).

“Encumbrance” means any mortgage, pledge, lien, security interest, charge or other encumbrance.

“Event of Default,” when used in the Indenture, means any event of default specified in the Indenture, when used in the Loan Agreement, means any event of default specified in the Loan Agreement.

“Executive Director” means the Executive Director of the Issuer or such other person or office to which the principal functions of the Executive Director may be transferred.

“First Amendment to Collateral Agency Agreement” means that certain First Amendment to Collateral Agency and Security Agreement dated as of December 2, 2013, by and among the Series 2011 Bond Trustee, the Series 2013 Bond Trustee, the Issuer, the Borrower, the Collateral Agent, STI Institutional & Government, Inc., and SunTrust Bank.

“Fiscal Year” means the period of 12 consecutive months beginning on July 1 in any calendar year and ending on June 30 of the following calendar year, or such other fiscal year as the Borrower, with prior written notice to the Trustee, shall establish as the fiscal year of the Borrower.

“Fitch” means Fitch, Inc. or its successor in the business of providing investment rating services, provided that if neither Fitch nor any such successor is then in the business, the references to Fitch and ratings thereof shall no longer be required by the terms and provisions of the documents.

“General Contractor” means, for any particular component of the 2019 Facility or any Additional Facility, the contractor engaged by the Borrower for such component.

“Government Obligations” means direct obligations of, or obligations the full and timely payment of the principal of and the interest on which are unconditionally guaranteed by, the United States of America.

“Guaranty” means any guaranty or other obligation of the Borrower guaranteeing in any manner, whether directly or indirectly, any Indebtedness of any other Person.

“Holder” or “holder” or “Owner” or “owner” or any similar term means a Bondholder.

“Improvement” or “improvement” means, when used in regard to the 2019 Facility and any Additional Facilities, and shall include, where applicable, and without limitation, the addition, alteration, construction, equipping, expansion, improvement, installation, reconstruction, rehabilitation, remodeling, or repair, and paying the necessary costs of preparing, printing and selling the Bonds, and such other costs as may be permitted by the Act and the Code.

“Indebtedness” means any indebtedness or liability for borrowed money, any installment sale obligation or any obligation under any lease that is capitalized under generally accepted accounting principles and any Guaranty of any of the foregoing.

“Indenture” means the Trust Indenture dated as of February 1, 2019, by and between the Issuer and the Trustee, as amended, modified or supplemented from time to time by Supplemental Indentures.

“Independent Actuary” means an Independent Person regularly employed as an actuary and employed by the Borrower pursuant to the Loan Agreement.

“Independent Counsel” means any attorney duly admitted to practice law before the highest court of any state who has regularly engaged in the practice of law as a primary occupation and who is not an officer or full-time employee of the Issuer, the Borrower or the Trustee. Bond Counsel to the Issuer may be deemed Independent Counsel.

“Independent Insurance Consultant” means an Independent Person regularly employed as an insurance consultant and/or broker and employed by the Borrower pursuant to the Loan Agreement.

“Independent Person” means a person designated by the Borrower and not an employee of the Borrower.

“Independent Public Accountant” means an Independent Person engaged in the accounting profession, either entitled to practice, or having members or officers entitled to practice, as a certified public accountant under the laws of the State, employed by the Borrower from time to time to pass upon those matters required by the Indenture and the Loan Agreement to be passed upon by an Independent Public Accountant.

“Interest Payment Date” means (i) with respect to the Series 2019 Bonds, September 1 and March 1 of each year (commencing September 1, 2019), (ii) with respect to any Additional Bonds, such dates as described in the Supplemental Indenture authorizing such Bonds and (iii) the maturity date of the applicable Series of Bonds.

“Investment Obligations” means:

- (a) Government Obligations;
- (b) Agency Obligations;
- (c) evidences of ownership of a proportionate interest in specified Government Obligations or Agency Obligations, which Government Obligations or Agency Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian and which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50,000,000;
- (d) savings accounts, time deposits and certificates of deposit, both domestic and euro, in any bank, including the Trustee or any affiliate thereof, if such accounts or certificates are fully insured by Federal Deposit Insurance Corporation insurance or, to the extent not so insured, collateralized in the manner set forth for repurchase obligations in clauses (k)(i) and (k)(ii) below;
- (e) savings accounts and certificates of savings and loan associations that are under supervision of the State and federal associations organized under the laws of the United States of America and under federal supervision, but only to the extent that such accounts and certificates of state or federal associations are fully insured by the Federal Deposit Insurance Corporation or any successor federal agency or, to the extent not so insured, collateralized in the manner set forth for repurchase obligations in clauses (k)(i) and (k)(ii) below;
- (f) bankers’ acceptances guaranteed by any bank having a combined capital, surplus and undivided profits of not less than \$50,000,000 and whose credit is rated by at least one of the Rating Agencies in one of its two highest rating categories without regard to any refinement or gradation of such rating categories by numerical modifier or otherwise;
- (g) corporate obligations with a maturity of 365 days or fewer, upon which there is no default, rated by at least one of the Rating Agencies in its highest rating category without regard to any refinement or gradation of such rating category by numerical modifier or otherwise;
- (h) guaranteed investment agreements with a commercial bank, trust company (including the Trustee or an affiliate thereof) or a financial institution organized under the laws of any state of the United States of America or any national banking association or a branch of a foreign bank duly licensed under the laws of the United States of America or any state or territory thereof, provided that the bonds or debentures of such commercial bank or trust company, financial institution or national banking association or branch of a foreign bank are rated by

Moody's at the time of the investment not lower than Moody's "Aa3" or are rated by S&P at such time not lower than S&P's "AA-" or are rated by Fitch at such time not lower than Fitch's "AA-";

(i) guaranteed investment agreements with any insurance company whose bonds or debentures or claims paying ability is rated by Moody's at the time of the investment not lower than Moody's "Aa1" or by S&P at such time not lower than S&P's "AA+" or by Fitch at such time not lower than Fitch's "AA+"; provided, however, that if the applicable rating falls below A2, A or A, respectively, the obligations of the provider of any such guaranteed investment agreement shall be collateralized at 103% with Government Obligations;

(j) any money market or short term investment fund investing in or consisting of and secured by Government Obligations, and or Agency Obligations, which fund is rated at least as high as the ratings given to the Bonds by Moody's (if the Bonds are then rated by Moody's) and S&P (if the Bonds are then rated by S&P), including any such fund maintained by the Trustee (including any proprietary mutual fund of the Trustee or any affiliate of the Trustee for which the Trustee or an affiliate of the Trustee serves as investment advisor or provides other services to such mutual fund and receives reasonable compensation therefor);

(k) repurchase agreements with a registered broker/dealer that is subject to Securities Investor's Protection Corporation liquidation in the event of insolvency or any insurance company or bank, including the Trustee or an affiliate thereof, within or without the State having a combined capital, surplus and undivided profits of not less than \$50,000,000, provided that:

(i) the obligation of the registered broker/dealer, insurance company or bank to repurchase is collateralized by Government Obligations or Agency Obligations, which must have on the date of the repurchase agreement and at all times thereafter, as valued on a monthly basis, a fair market value equal to at least 103% of the amount of the repurchase obligation, including interest;

(ii) the securities are free from any lien, claim or interest of any parties other than the registered broker/dealer, insurance company or bank and the Trustee; and

(iii) the repurchase agreement provides for early repurchase upon the failure of the securities to maintain the required fair market value;

and provided further that either (A) title to and/or possession of such securities is transferred to the Trustee in its capacity as Trustee, (B) the securities are held by a third party (not as agent for the registered broker/dealer, insurance company or bank) for the benefit of the Trustee and segregated from securities owned generally by such third party, (C) a perfected security interest under the Uniform Commercial Code of the state where the securities are located or book-entry procedures prescribed at 31 C.F.R. 306.1 *et seq.* or 31 C.F.R. 350.0 *et seq.* in such securities is created for the benefit of the Holders, or (D) if the repurchase agreement is with the bank serving as the Trustee or related to the trust company serving as the Trustee, the third party holding such securities holds them as agent for the Trustee as fiduciary for the Holders and not as agent for the bank serving as the Trustee or related to the trust company serving as the Trustee in its commercial capacity or any other party; and

(l) obligations of any state of the United States of America or any political subdivision thereof, the payment of the principal of and interest on which is secured by a letter of credit, bond insurance or other credit facility, provided that such letter of credit, bond insurance or other credit facility is issued by any commercial bank or trust company, financial institution or national banking association, branch of a foreign bank or insurance company whose bonds or debentures or claims-paying ability are rated at the time of the collateralization not lower than "Aa3" by Moody's or not lower than "AA-" by S&P or not lower than "AA-" by Fitch.

Any investment in obligations described in (a), (b), (c) and (d) above may be made in the form of any entry made on the records of the issuer of the particular obligation.

"Issuer" means the Maryland Industrial Development Financing Authority, a body politic and corporate and an instrumentality of the State, its successors and assigns.

"Issuer's Fee" means the annual fee due and payable by the Borrower to the Trustee pursuant to the Loan Agreement.

"Issuer's Obligations" means the limited obligations of the Issuer under the Bond Documents to (a) pay the principal of, premium (if any) and interest on, and purchase price of, the Bonds, when and as the same become due and payable (whether at the stated maturity thereof, or by acceleration of maturity or after notice of redemption or prepayment or otherwise, or on demand by the Owners thereof as provided in the Indenture), (b) pay, or cause to be

paid, all other payments (if any) required by the Bond Documents to be paid by the Issuer, and (c) timely perform, observe and comply with all of the terms, covenants, conditions, stipulations, and agreements, express or implied, which the Issuer is required by the Bond Documents to perform and observe.

“Liquidity Facility” means a written commitment to provide money to purchase or retire any Indebtedness if (i) on the date of delivery of such Liquidity Facility, the unsecured long-term indebtedness or claims-paying ability of the provider of such Liquidity Facility or its parent holding company or other controlling entity is rated at least “A” by at least one of the Rating Agencies and (ii) as of any particular date of determination, no amount realized under such Liquidity Facility for the payment of the principal or the purchase or redemption price of such Indebtedness (exclusive of amounts realized for the payment of accrued interest on such Indebtedness) shall be required to be repaid by the Borrower for a period of at least one year.

“Loan Agreement” means the Loan Agreement dated as of February 1, 2019, between the Issuer and the Borrower, together with any Supplements thereto.

“Loans” means the 2019 Loan and any other loans made by the Issuer to the Borrower of the proceeds of sale of any Additional Bonds.

“Long-Term Indebtedness” means all of the following Indebtedness incurred or assumed by the Borrower:

- (i) any obligation for the payment of principal and interest with respect to money borrowed for an original term, or renewable at the option of the Borrower for a period from the date originally incurred, longer than one year;
- (ii) any obligation for the payment of money under leases that are required to be capitalized under generally accepted accounting principles;
- (iii) any obligation for the payment of money under installment purchase contracts having an original term in excess of one year;
- (iv) any obligation that would constitute Short-Term Indebtedness if a Liquidity Facility were not in effect with respect thereto; and
- (v) any Guaranty of any Indebtedness that would be described in item (i), (ii), (iii) or (iv) above if such Indebtedness were incurred directly by the Borrower.

“Management Consultant” means an Independent Person that is a professional management consultant having a favorable reputation for skill and experience in consulting work relating to college preparatory high schools.

“Maryland UCC” means the Maryland Uniform Commercial Code, as from time to time in effect.

“Maximum Annual Debt Service” means when used with reference to any Long-Term Indebtedness, as of any particular date, the greatest amount required in the then current or any future Fiscal Year to pay the Debt Service Requirements of such Long-Term Indebtedness.

“MIDFA Act” means the Maryland Industrial Development Financing Authority Act, as amended, and all future laws supplemental thereto or amendatory thereof.

“Moody’s” means Moody’s Investors Service, Inc. or its successor in the business of providing investment rating services, provided that if neither Moody’s nor any such successor is then in the business, the references to Moody’s and ratings thereof shall no longer be required by the terms and provisions of the documents.

“Net Income Available for Debt Service” means for any Fiscal Year, the Borrower’s operating revenues (including, without limitation, any gifts or grants that may be applied to the payment of debt service on the Bonds) minus operating expenses plus endowment income intended for operations for such Fiscal Year.

“Net Revenues Available for Debt Service” means, for any period, the sum of (a.) the increase in unrestricted net assets from operations for such period, exclusive of (i) any non-operating realized/unrealized gains/losses on investments for such period and (ii) any losses from the early extinguishment of indebtedness and/or interest rate swaps allocable to such period, plus (b) the amount of depreciation, interest expense, amortization expenses and any other non-cash operating expenses or charges for such period, all as determined in accordance with generally accepted accounting principles, plus (c) to the extent not included in the calculations in clause (a) or (b), (i) endowment spending (with or without donor restriction) for operations during such period, and (ii) the net



revenues (including royalties) during such period from the sale, leasing or licensing of any rights or properties and from the sale, lease, exchange or other disposition of land, buildings, artwork, collections and collectibles, to the extent such net revenues may be used for the payment of debt service.

“Non-Recourse Indebtedness” means Indebtedness that does not constitute a general obligation of the Borrower and that is payable solely from (a) property of, or the revenues of such property, the purchase or improvement of which was financed by such Indebtedness; (b) payments made to the Borrower pursuant to pledges or contributions; or (c) guarantees or payments from a person other than the Borrower.

“Operating Assets” means any land, building, machinery, equipment, hardware, inventory or other property or any interest therein (except cash, investment securities and other property held for investment purposes) of the Borrower used in its mission, trade or business.

“Outstanding,” “outstanding” or “Bonds Outstanding” means, when used in reference to the Bonds as of any given date, all Bonds which have been duly authenticated and delivered by the Trustee under the Indenture (including Bonds owned by the Borrower) except:

- (a) Bonds which have been cancelled by the Trustee at or prior to such date or which have been delivered to the Trustee at or prior to such date for cancellation;
- (b) Bonds deemed to be paid in accordance with the Indenture; and
- (c) Bonds in lieu of which other Bonds have been authenticated under the Indenture.

“Owings Mills Corporate Center” means the 60-acre (approximate) portion of the Campus that is under 50-99 year leases.

“Paying Agent” means the Trustee, or any successor paying agent appointed under the Indenture.

“Permitted Encumbrance” means:

(a) any Encumbrance arising by reason of any good faith deposit with the Borrower in connection with any lease of real estate, bid or contract (other than any contract for the payment of money), and deposit by the Borrower to secure any public or statutory obligation, or to secure, or in lieu of, any surety, stay or appeal bond, and any deposit as security for the payment of taxes or assessments or other similar charges.

(b) any Encumbrance arising by reason of any deposit 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 Borrower to maintain self-insurance or to participate in any funds established to cover any insurance risk or in connection with workers’ compensation, unemployment insurance, any pension or profit sharing plan or other social security, or to share in the privileges or benefits required for the participation of the Borrower in such arrangements.

(c) any judgment lien against the Borrower that is being diligently contested in good faith and by appropriate proceedings and is fully bonded or covered by insurance and the execution thereon stayed, and any judgment lien against the Borrower that does not exceed Five Hundred Thousand Dollars (\$500,000) regardless of whether or not such lien is being contested, is bonded or is covered by insurance or the execution is stayed.

(d) any right reserved to or vested in any governmental authority by the terms of any right, power, franchise, grant, license, permit or provision of law affecting any property of the Borrower, any Encumbrance on any property of the Borrower for taxes, assessments, levies, fees, water and sewer rents or charges and other governmental and similar charges (i) that is not due and payable or that is not delinquent or (ii) the amount or validity of which is being contested in good faith and is fully bonded against.

(e) any Encumbrance granted for the benefit of all Parity Obligees (as defined in the Collateral Agency Agreement) or permitted or created under the Loan Agreement, the Indenture or any of the other Bond Documents.

(f) any Encumbrance with respect to moneys deposited with the Borrower as security for, or as prepayment of, tuition and other costs.

(g) any Encumbrance on property received by the Borrower through any gift, grant or bequest constituting a restriction imposed by the donor, grantor or testator on such gift, grant or bequest or the income therefrom.

(h) such easements, rights-of-way, servitudes, restrictions and other defects, liens and encumbrances as do not materially impair the use of the Property for its intended purposes or the value thereof.

“Person” or “person” means any natural person, firm, association, corporation, company, trust, partnership, public body or other entity.

“Plans and Specifications” means the plans and specifications in accordance with which the 2019 Facility and, if applicable, any Additional Facilities are to be constructed by a General Contractor, and which have been approved by the Borrower.

“Prime Rate” means the prime rate of interest established and declared from time to time by the Trustee as a commercial lending institution, or if the Trustee is not a commercial lending institution, by a commercial lending affiliate of the Trustee. Any adjustment in the Prime Rate shall be made effective as of the date of any adjustment in the prime rate so established and declared.

“Principal Office” means, with respect to the Trustee, the Registrar or the Paying Agent, the office at the address set forth in the Indenture, or such other office which may be designated as such, from time to time, by the respective party in writing to the Issuer, the Borrower, the Trustee, the Paying Agent and the Registrar.

“Property” means the Campus, the 2019 Facility and any Additional Facilities.

“Rating Agencies” means Moody’s, S&P or Fitch.

“Rebate Amount” shall have the meaning given to that term in the Borrower’s Tax Certificate.

“Record Date” means (i) the fifteenth day of the calendar month immediately preceding each Interest Payment Date and (ii) the “Special Record Date” as defined in the Bond.

“Redemption Price” means the principal amount of any Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture.

“Refunding Proceeds” means the proceeds of the sale of any refunding obligations issued in accordance with the Indenture.

“Registrar” or “Bond Registrar” means the Trustee in its capacity as bond registrar under the Indenture.

“Reserved Rights of the Issuer” means (a) all rights of the Issuer as set forth in Sections 3.02(c), 5.07, 6.02, 9.07 and 11.04 of the Loan Agreement including, without limitation, the right of the Issuer to receive the Issuer’s Fee, (b) the right of the Issuer to receive notices, reports or other information, make determinations and grant approvals under the Indenture and under the other Bond Documents, (c) all rights of the Issuer to enforce (other than the declaration of a default under the Loan Agreement) the representations, warranties, covenants and agreements of the Borrower pertaining in any manner or way, directly or indirectly, to the tax-exempt status of interest on any Tax-Exempt Bonds set forth in the Loan Agreement or in the Borrower’s Tax Certificate or in any other certificate or agreement executed by the Borrower, (d) all rights of the Issuer in connection with any amendment to or modification of the Indenture or the Loan Agreement, and (e) all enforcement remedies with respect to the foregoing.

“Revenue Bond Act” means the Maryland Economic Development Revenue Bond Act, as amended, and all future laws supplemental thereto and amendatory thereof.

“Revenues” means (i) all payments to the Trustee for the account of the Issuer pursuant to the Loan Agreement, including (without limitation) moneys received by the Trustee from the Borrower pursuant to Section 3.02 of the Loan Agreement, and (ii) all other receipts of the Issuer or the Trustee under the Loan Agreement, including (without limitation) receipts from the enforcement thereof and the exercise of remedies thereunder; provided, however, that the term “Revenues” does not include the Reserved Rights of the Issuer.

“Rollins-Luetkemeyer Foundation Grant” means the grants made by the Rollins-Luetkemeyer Foundation, Inc. (the “Foundation”) to the Borrower pursuant to the letters dated May 13, 2015 and November 15, 2018 from the Foundation to the Borrower and agreed to by the Borrower.

“S&P” means Standard & Poor’s Ratings Services or its successors in the business of providing investment rating services, provided that if neither S&P nor any such successor is then in the business, the references to S&P and ratings thereof shall no longer be required by the terms and provisions of the documents.

“Secretary” means the Secretary of Commerce of the State.

“Serial Bonds” means the Bonds of any Series that are stated to mature in consecutive annual installments.

“Series” means any Series of Bonds authorized by the Indenture.

“Series 2011 Bonds” means the Maryland Industrial Development Financing Authority Economic Development Refunding Revenue Bonds (McDonogh School Facilities), Series 2011 A,B,C and D issued in the original aggregate principal amount of \$38,000,000.

“Series 2011 Bond Trustee” means Manufacturers and Traders Trust Company, as trustee for the Series 2011 Bonds.

“Series 2013 Bonds” means the Maryland Industrial Development Financing Authority Economic Development Refunding Revenue Bonds (McDonogh School Facilities), Series 2013 issued in the original aggregate principal amount of \$11,800,000.

“Series 2013 Bond Trustee” means Manufacturers and Traders Trust Company, as trustee for the Series 2013 Bonds.

“Service” means the Internal Revenue Service, a bureau of the United States Department of the Treasury.

“Short-Term Indebtedness” means (i) any Indebtedness incurred or assumed by the Borrower for a term not exceeding 365 days and (ii) any guaranty of any Indebtedness that would be described in clause (i) above if such Indebtedness were incurred directly by the Borrower.

“Sinking Fund Installment” means the amount of money provided in the Indenture, and in each Supplemental Indenture authorizing any Series of Additional Bonds, to redeem prior to maturity and pay at maturity Bonds at the times and in the amounts provided in the Indenture or such Supplemental Indenture (as the case may be), less the amount of any credit against such amount arising from the purchase of Bonds in any prior Bond Year as provided in the Indenture or in the Supplemental Indenture authorizing such Additional Bonds.

“State” means the State of Maryland.

“Supplement” or “Supplements” means any and all extensions, renewals, modifications, amendments, supplements and substitutions.

“Supplemental Indenture” means any indenture of the Issuer amending, modifying or supplementing the Indenture, any Supplemental Indenture, the Loan Agreement, or any Bond, adopted and becoming effective in accordance with the terms of the Indenture.

“Tax-Exempt Bonds” means the Series 2019 Bonds and any other Bonds with respect to which there shall have been delivered to the Issuer an opinion of Bond Counsel to the effect that the interest on such Bonds is excludable from gross income for federal income tax purposes.

“Term Bonds” means the Series 2019 Bonds maturing on September 1, 20\_\_ and 20\_\_ and the Bonds of any other Series, other than Serial Bonds, payable prior to or at their stated maturity from Sinking Fund Installments deposited in the Sinking Fund Account.

“Trust Estate” has the meaning given to that term in the Granting Clauses of the Indenture.

“Trustee” means the bank, trust company or national banking association appointed pursuant to the Indenture as trustee for the Bonds and any other corporation that may at any time be substituted in its place pursuant to the Indenture, and their successors.

“Underwriter” means George K. Baum & Company.

“Vice Chairman” means the Vice Chairman of the Issuer or such other person or office to which the principal functions of the Vice Chairman may be transferred.

“2019 Facility” means (a) the construction of an instructional building or other improvements containing approximately 7,500 square feet known as the Fader Innovation Center; (b) the construction of 38 housing units and related site improvements for faculty and staff containing approximately 90,000 square feet in the aggregate; (c) the architecture and engineering costs related to the design of an instruction building containing approximately 60,000 square feet to be used as a middle school; (d) the renovation of the athletic center; (e) the renovation of the upper school library; (f) the construction of a new residence for the Head of School consisting of approximately 4,900 square feet and the related construction of a new water line; (g) the purchase and installment of machinery and equipment to increase the capacity of the power plant and piping to accommodate additional buildings on the Campus; (h) the miscellaneous renovations to various improvements on the Campus, including, but not limited to, roofs, gutters, sidewalks, dormitories, athletic fields, security gates and cameras, and electrical and sound systems; (i) the replacement and improvement of the outdoor track and related facilities; (j) such machinery and equipment as may be necessary or useful for the operation of the foregoing; and (k) such interests in land or improvements as may be necessary or suitable for the foregoing, including roads and rights of access, utilities and other necessary site preparation facilities. The term “2019 Facility” shall include any amendments made pursuant to the Loan Agreement.

“2019 Loan” means the loan made by the Issuer to the Borrower of the proceeds of the sale of the Series 2019 Bonds.

Any reference to the Revenue Fund, the Debt Service Fund, the Interest Account, the Principal Account, the Sinking Fund Account, the Insurance and Condemnation Award Fund, the Redemption Fund, the Rebate Fund, the Construction Fund, the Construction Account, the Borrower Fund or the Issuer’s Fee Fund shall be to the fund or account so designated that is created under the Indenture.

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## **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

The following is a summary of certain provisions of the Indenture. It is not a complete recital of the terms of the Indenture and reference should be made to the Indenture for a complete statement of its terms. Words and terms used in this summary shall have the same meanings as in the Indenture, except where otherwise noted.

### **Creation of Funds and Accounts (Section 4.01)**

The following funds and separate accounts within funds are created by the Indenture for the benefit of the holders of all Bonds Outstanding under the Indenture and shall be held and maintained by the Trustee: Revenue Fund, Construction Fund (Construction Account), Debt Service Fund (Principal Account, Interest Account, Sinking Fund Account), Redemption Fund and Insurance and Condemnation Award Fund.

The Rebate Fund is created by the Indenture to secure the obligations of the Borrower with respect to rebate. The Rebate Fund is not pledged to the payment of any Bonds.

The Issuer's Fee Fund is created by the Indenture for the benefit of the Issuer pursuant to the Indenture and shall be maintained by the Trustee. The Issuer's Fee Fund is not pledged to the payment of any Bonds.

### **Application of Proceeds of Series 2019 Bonds (Section 4.02)**

The net proceeds of the Series 2019 Bonds shall be received by the Trustee in trust for the benefit of the holders from time to time of the Series 2019 Bonds, subject to and in accordance with the terms of the Indenture. Upon receipt of such proceeds, the Trustee shall deposit into the Redemption Fund an amount sufficient to redeem the Series 2013 Bonds and the balance of such proceeds into the Construction Account.

### **Application of Moneys in Construction Fund (Sections 4.04 and 4.05)**

Moneys deposited in the Construction Account shall be used only to pay the Costs of Issuance and the Costs of or relating to the 2019 Facility or any Additional Facilities, including (without limitation) reimbursements to the Borrower for any such Costs paid by the Borrower. Disbursements to pay Costs of Issuance shall be made upon the Trustee's receipt of the written direction of the Borrower.

All disbursements from the Construction Account will be made by the Trustee directly (i) to the person, firm or corporation to be paid or (ii) to both the Borrower and such person, firm or corporation in each case as directed in the requisition, provided that upon receipt of an invoice and a copy of a check evidencing that the Borrower has previously paid such amount, the amount of such payment shall be paid to the Borrower, or to such person as an Authorized Officer of the Borrower may direct.

Moneys remaining in the Construction Account upon completion of the 2019 Facility and not needed to pay costs of acquisition of the 2019 Facility shall be applied as provided in a letter of Bond Counsel, which the Borrower shall provide to the Trustee and the Issuer. If moneys remain in the Construction Account after the third anniversary of the Closing Date, the Borrower will direct the Trustee not to invest the proceeds remaining in the Construction Account at a yield which exceeds the Bond Yield (as defined in the Borrower's Tax Certificate). On or prior to the date which is 3 years from the date of issuance of the Series 2019 Bonds, the Borrower will deliver to the Issuer and the Trustee a letter from Bond Counsel regarding use of the moneys remaining in the Construction Account after the third anniversary of the Closing Date.

### **Deposit and Application of Moneys in Revenue Fund (Section 4.06)**

The Revenues and any other moneys that are required to be deposited in the Revenue Fund shall be promptly deposited by the Trustee to the credit of the Revenue Fund.

Except as otherwise expressly provided in the Indenture, the Trustee shall transfer moneys in the Revenue Fund upon deposit thereof as follows and in the following order of priority:

FIRST: to the Interest Account, the amount, if any, necessary to make the amount on deposit therein equal to the amount of accrued and unpaid interest payable on the Bonds Outstanding as of the immediately succeeding Interest Payment Date;

SECOND: (i) on the twenty-fifth day of each August commencing on August 25, 20\_\_, to the Principal Account, the amount of any principal of the Bonds Outstanding becoming due on the immediately succeeding maturity date; and

(ii) on the twenty-fifth day of each August commencing on August 25, 20\_\_, to the Sinking Fund Account, the amount of any Sinking Fund Installment for the Bonds Outstanding becoming due on the immediately succeeding September 1.

Moneys deposited in the Revenue Fund that constitute (i) voluntary prepayments by the Borrower shall be paid to the Redemption Fund; (ii) payments made by the Borrower to the Trustee in accordance with disposition of its assets permitted by the Loan Agreement shall be paid to the Redemption Fund and allocated by the Trustee between the payment of Bonds proportionately on the basis of the respective aggregate principal amounts of Bonds then Outstanding; (iii) payments by the Borrower for excess costs of the 2019 Facility or any Additional Facilities shall be paid to the Construction Account and (iv) the proceeds of the exercise of any remedies shall be applied as described below under “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Events of Default and Remedies – Enforcement and Priority of Payments Following Default.”

#### **Application of Moneys in Debt Service Fund (Section 4.07)**

On each Interest Payment Date the Trustee shall pay or cause to be paid from the Interest Account the interest due on the Outstanding Bonds. The Trustee also shall pay from the Interest Account any amounts required for the payment of accrued interest upon any purchase or redemption of the applicable Outstanding Bonds as provided in the Indenture.

On each September 1, commencing September 1, 20\_\_, the Trustee shall pay or cause to be paid from the Principal Account the principal amount due, if any, on Outstanding Bonds, upon presentation and surrender of the requisite Bonds. The Trustee shall take all action necessary to effect the timely redemption of Outstanding Series 2019 Bonds from the Sinking Fund Account in accordance with the Sinking Fund Installments as described in “THE SERIES 2019 BONDS – Redemption Provisions – Mandatory Sinking Fund Redemption” of this Official Statement.

#### **Application of Moneys in Redemption Fund (Section 4.08)**

So long as no Event of Default has occurred and is continuing of which the Trustee has knowledge or is deemed to have actual knowledge according to the Indenture, the Trustee shall set aside any amount on deposit in the Redemption Fund for the redemption of particular Bonds upon receipt of irrevocable written instructions of the Borrower to the Trustee directing the Trustee to set aside such amount for such purpose, in which event all of the provisions of the Indenture shall be applicable to such Bonds and the amounts set aside for the payment of such Bonds. Amounts set aside for the redemption of Bonds and investment earnings on such amounts shall be applied to the payment of the interest due on such Bonds on or prior to the redemption date of such Bonds to the extent provided in such instructions.

Moneys in the Redemption Fund shall be applied by the Trustee to the purchase or redemption of Bonds as the Authorized Officer of the Borrower, by written request on behalf of the Issuer, shall direct. At the written direction of the Authorized Officer of the Borrower, the Trustee shall endeavor to purchase such Bonds at the most advantageous price obtainable with reasonable diligence, but no such purchase shall be made by the Trustee (i) within the period of 45 days immediately preceding any Interest Payment Date on which such Bonds are subject to call for redemption under the provisions of the Indenture or (ii) at a price, including any brokerage or other charges, greater than the Redemption Price of such Bonds on the next Interest Payment Date on which such Bonds are subject to redemption and accrued interest to the date of purchase of such Bonds.

#### **Application of Moneys In Insurance and Condemnation Award Fund (Section 4.09)**

The Trustee shall deposit into the Insurance and Condemnation Award Fund the proceeds of the proceeds of the taking of the 2019 Facility and any Additional Facilities in the exercise of the power of eminent domain (or similar proceedings or related agreements) and insurance proceeds payable in connection with the loss, damage or destruction of any Property. Moneys in the Insurance and Condemnation Award Fund shall be, at the direction of the Borrower, (i) disbursed by the Trustee upon requisitions meeting the requirements of the Indenture to pay the costs of repair, restoration, or replacement of lost, damaged, destroyed or taken property, or (ii) applied to the redemption of the Bonds in accordance with the provisions of the Loan Agreement described below under “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Application of Proceeds of Insurance and Condemnation; Extraordinary Redemption of Bonds.”

#### **Investments (Section 4.10)**

Moneys in any of the funds and accounts established by the Indenture may be invested.

Any moneys in any of such funds or accounts that are held by the Trustee shall be invested by the Trustee, as shall be directed in a written order signed by the Authorized Officer of the Borrower or its agent designated in a certificate of an Authorized Officer of the Borrower, but only as follows:

(a) moneys in the Revenue Fund, the Interest Account, the Sinking Fund Account, the Principal Account, the Construction Fund, the Redemption Fund and the Insurance and Condemnation Award Fund shall be invested only in Investment Obligations maturing in such amounts and on such dates as may be necessary to provide moneys to meet the payments from such funds and accounts; and

(b) moneys in the Rebate Fund shall be invested in accordance with the Indenture; and

Investments designated in any written order by the Borrower or its agent shall have maturities or redemption options consonant with the need of the Borrower and the Trustee for funds.

Except as described below, interest earned, profits realized and losses suffered by reason of any investment of the funds and accounts created by the Indenture shall be credited or charged, as the case may be, to the fund or account for which such investment shall have been made.

Upon the written request of an Authorized Officer of the Borrower, interest earned from the investment of all or any portion of any money in the Redemption Fund shall be paid from such Fund to the Interest Account during any period set forth in such request.

In determining the value of the assets of the funds and accounts created by the Indenture, investments and accrued interest thereon shall be deemed a part thereof. Investments shall be valued at current market value, or at the redemption price thereof, if then redeemable at the option of the holder.

Neither the Trustee nor the Issuer shall be liable for any depreciation in the value of any obligations in which moneys of the funds or accounts created by the Indenture shall be invested as set forth above or for any loss arising from any investment permitted in the Indenture.

#### **The Rebate Fund (Section 4.12)**

The Trustee shall deposit into the Rebate Fund amounts paid by the Borrower pursuant to the Loan Agreement and the Borrower's Tax Certificate. The Borrower shall determine the Rebate Amount in accordance with the Borrower's Tax Certificate and the Rebate Amount, if any, shall be paid at such times and in such installments as provided therein. As further provided in the Borrower's Tax Certificate, the Borrower shall be responsible for paying the Rebate Amount, if any. Neither the Issuer nor the Trustee shall be obligated to pay any portion of the Rebate Amount (except from funds on deposit in the Rebate Fund). In addition, neither the Issuer nor the Trustee shall have any responsibility with respect to the calculation of the Rebate Amount.

As provided in the Borrower's Tax Certificate, the Borrower is required to (i) perform every five years a rebate calculation with respect to the Rebate Amount and either (ii) (1) pay to the Trustee for deposit into the Rebate Fund an amount of money as determined by such calculation within 30 days of such calculation or (2) provide the Trustee and the Issuer with written notice (signed by the Borrower and the Independent Public Accountant) that no deposit is required. If the Trustee does not receive either of the items described above, the Trustee shall notify the Issuer.

Amounts in the Rebate Fund are not pledged to the payment of the principal or Redemption Price of or interest on the Bonds.

#### **Additional Bonds (Section 2.05)**

The Indenture authorizes the issuance of Additional Bonds by the Issuer for any purpose for which obligations of the Issuer may be issued under the Act, including (without limitation) (i) refunding or advance refunding any Outstanding Bonds; (ii) obtaining funds necessary to complete the acquisition and improvement of the 2019 Facility or any Additional Facilities; and (iii) obtaining funds to finance or refinance the costs of acquisition and improvement of Additional Facilities. The costs to be incurred by the Borrower in connection with the issuance and sale of any such Additional Bonds, the establishment of necessary reserves and the payment of interest prior to and during construction and for a limited period after the completion of the 2019 Facility or any such Additional

Facilities, shall be included within each of the foregoing authorized purposes. The issuance of Additional Bonds shall be authorized by a Supplemental Indenture of the Issuer, which shall specify all matters required to be provided in the Indenture.

Each Series of Additional Bonds shall be on a parity with the Series 2019 Bonds and shall be entitled to the same benefit and security of the Indenture, including (without limitation) the pledge of the Revenues made by the Indenture, as the Series 2019 Bonds and any other Series of Additional Bonds that may be issued from time to time on a parity with such Bonds as provided in the Indenture.

All Additional Bonds shall mature on September 1 and redemptions of Additional Bonds from the Sinking Fund Account for such Additional Bonds shall be made on September 1 of the year in which such redemptions are to be made, and the interest on all Additional Bonds shall be payable on March 1 and September 1 of each year, unless otherwise agreed pursuant to the Supplemental Indenture authorizing the issuance of such Additional Bonds.

The Supplemental Indenture authorizing the issuance of any Series of Additional Bonds may provide that proceeds realized under any credit facility securing the payment of such Additional Bonds shall not be available to pay the principal or Redemption Price of or interest on, or the purchase price (if any) of, the Series 2019 Bonds or any other Series of Additional Bonds.

If any Supplemental Indenture authorizing the issuance of Additional Bonds provides for the establishment of separate funds and accounts for each Series of Bonds, then such Supplemental Indenture shall require (i) that the Revenues received by the Issuer or the Trustee for the account of the Issuer pursuant to the Loan Agreement shall be deposited pro rata as to time and amount among the various funds and accounts, to the end that the Bonds of each Series shall be equally and ratably secured by the Revenues and (ii) that amounts on deposit in the Debt Service Fund, Construction Fund, Insurance and Condemnation Award Fund, and Redemption Fund created for each Series of Bonds shall be applied solely to the payment of the principal or Redemption Price of and interest on, or the purchase price of, the Bonds of such Series.

Any Supplemental Indenture authorizing the issuance of Additional Bonds may provide that any proceeds of such Additional Bonds and investment earnings thereon remaining after the completion of the 2019 Facility or any Additional Facilities financed with the proceeds of such Additional Bonds, as applicable, shall be deposited in the Redemption Fund created for such Series of Additional Bonds.

The Bonds of each Series of Additional Bonds shall be executed by the Issuer and delivered to the Trustee, whereupon the Trustee shall authenticate such Additional Bonds and, upon payment of the purchase price of such Additional Bonds, deliver such Additional Bonds to or upon the order of the Issuer, but only upon receipt by the Trustee of, among other things:

(a) all certificates, opinions, written statements and other documents required pursuant to the Loan Agreement described below under “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Additional Indebtedness;” and

(b) an opinion of Bond Counsel to the effect that the issuance of such Additional Bonds will not adversely affect the excludability from gross income for federal income tax purposes of interest paid on any Tax-Exempt Bonds theretofore issued.

#### **Amendments or Modifications of the Indenture and Loan Agreement (Sections 8.01, 8.02 and 8.04)**

Without notice to or the consent of the holders of the Bonds, the Issuer and the Trustee may, from time to time and at any time, enter into a Supplemental Indenture supplementing, modifying or amending the Indenture or any Supplemental Indenture for one or more of the following purposes: (a) to grant to or confer upon the Trustee for the benefit of the holders of Bonds any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Trustee for the benefit of such holders; (b) to add to the covenants and agreements of the Issuer contained in the Indenture, other covenants and agreements thereafter to be observed relative to the acquisition, construction, equipping, operation, maintenance, development or administration of the Property, or relative to the application, custody, use or disposition of the proceeds of Bonds; (c) to surrender any right, power or privilege reserved to or conferred upon the Issuer by the Indenture; (d) to confirm, as further assurance, any pledge under, and the subjection to any lien on, or claim or pledge of (whether created or to be created by the Indenture), the Revenues; (e) to cure any ambiguity or to cure or correct any defect or inconsistent provisions contained in the Indenture or to make such provisions in regard to matters or questions arising under the Indenture as may be necessary or desirable and not contrary to or inconsistent with the Indenture; (f) to authorize the



issuance of Additional Bonds, including (without limitation) any modifications or amendments required to grant to or otherwise secure for the holders of such Additional Bonds a parity interest in the security granted to the holders of the Series 2019 Bonds in accordance with the Indenture; (g) to permit the qualification of the Indenture or any Supplemental Indenture under any federal statute now or hereafter in effect or under any state blue sky law and, in connection therewith, to add to the Indenture or any Supplemental Indenture such other terms, conditions and provisions as may be permitted or required by such federal statute or state blue sky law, if any such Supplemental Indenture has no materially adverse effect upon Holders of the Bonds; (h) to obtain or to maintain any ratings on Bonds from any nationally recognized securities rating agency, if any such Supplemental Indenture has no materially adverse effect upon Holders of the Bonds; (i) to make any change provided for under the Indenture with respect to the issuance of Additional Bonds; (j) to make any other change in the Indenture that shall not prejudice in any material respect the rights of the holders of the Bonds Outstanding on the date as of which such change shall become effective; (k) to provide for the issuance of certificated Bonds in coupon form or registered form; (l) to preserve the excludability from gross income for federal income tax purposes of the interest paid on any Tax-Exempt Bonds theretofore issued, if any such Supplemental Indenture has no materially adverse effect upon Holders of the Series 2019 Bonds; or (m) to comply with any secondary market disclosure requirements.

Before the Issuer and the Trustee enter into any Supplemental Indenture as described above, there shall have been delivered to the Trustee and the Issuer an opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by the Indenture and the Act, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms and will not adversely affect the exclusion of the interest payable on the Tax-Exempt Bonds from the gross income of the Holders of the Tax-Exempt Bonds for purposes of federal income taxation pursuant to Section 103 of the Code.

With the prior written consent of the holders of a majority of the Bonds, the Issuer and the Trustee may, at any time and from time to time, enter into Supplemental Indentures amending or supplementing the Indenture, any Supplemental Indenture or any Bond to modify any of the provisions thereof or to release the Issuer from any of the obligations, covenants, agreements, limitations, conditions or restrictions therein contained; provided, however, that nothing contained in the Indenture shall permit (i) a change in any terms of redemption or purchase of any Bond, the due date for the payment of the principal of or interest on any Bond or any reduction in the principal, Redemption Price or purchase price of or interest on any Bond without the consent of the Holder of such Bond or (ii) except as expressly permitted by the Indenture, the creation of a claim or lien upon, or a pledge of, the Revenues ranking prior to or on a parity with the claim, lien and pledge created by the Indenture, a preference or priority of any Bond over any other Bond or a reduction in the percentage of Bonds the consent of the Holders of which is required for any modification of the Indenture, without the unanimous consent of the holders of all Outstanding Bonds, except that, with respect to the preceding clauses (i) and (ii), during any period of time in which an Event of Default has occurred and is continuing, the consent of only 66-2/3% of the Holders of all Outstanding Bonds shall be required for any of the foregoing other than a change in the percentage of Bonds the consent of the holders of which is required for modification of the Indenture.

Without notice to or the consent of the holders of the Bonds, the Issuer and the Borrower may, at any time and from time to time, enter into any amendment, change or modification of the Loan Agreement that is (i) required or permitted by the provisions of the Loan Agreement, or (ii) required to cure any ambiguity or formal defect or omission therein, or (iii) permitted by the Loan Agreement with respect to amendments of the 2019 Facility or any Additional Facilities, or (iv) required or permitted pursuant to the provisions of the Indenture in connection with the issuance of any Additional Bonds, or (v) not prejudicial in any material respect to the rights of the holders of the Bonds Outstanding on the date as of which such change shall become effective. Otherwise, neither the Issuer nor the Borrower shall enter into any amendment, change or modification of the Loan Agreement without the prior written consent of the Holders of a majority of the Bonds Outstanding at the effective date of such amendment or change.

Before the Issuer and the Borrower enter into any modification, alteration, amendment or supplement to the Loan Agreement, there shall have been delivered to the Issuer, the Borrower and the Trustee an opinion of Bond Counsel stating that such modification, alteration, amendment or supplement is authorized or permitted by the Indenture and the Act, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Issuer and the Borrower in accordance with its terms and will not adversely affect (A) the exclusion of the interest payable on the Tax-Exempt Bonds from the gross income of the Holders of the Tax-Exempt Bonds for purposes of federal income taxation pursuant to Section 103 of the Code or (B) the exemption of the Bonds from state, county and municipal taxation in the State.

## **Events of Default and Remedies**

### *Events of Default (Sections 7.01 and 7.02)*

“Events of Default” include, among others: failure to pay the principal of or interest on any of the Bonds when the same shall become due and payable; the appointment of a receiver of the Revenues; failure by the Issuer to perform its obligations under the Indenture unless such failure is cured within 30 days of notice; and events of default under the Loan Agreement.

Upon the happening and continuance of any Event of Default specified in the Indenture, the Trustee may, and upon the written request of not less than a majority of the Bondholders shall, by a notice in writing to the Borrower, declare the principal of all of the Outstanding Bonds to be due and payable, whereupon such principal and accrued interest thereon shall be immediately due and payable. The Trustee may not declare the principal of any Series of Bonds other than the Series 2019 Bonds to be due and payable without the prior written consent of any person whose consent shall be required for such declaration under the terms of the Supplemental Indenture authorizing the issuance of such Series of Bonds. If all defaults shall have been remedied pursuant to the Indenture and the Loan Agreement, then the Trustee may annul such declaration (but in the event that such declaration has been made upon the written request of the Bondholders, only with the written consent of not less than a majority of the Bondholders). By the terms of the Indenture, the Borrower is not prohibited from taking any action, to the extent permitted by applicable law, to remedy any event of default.

### *Enforcement and Priority of Payments Following Default (Sections 7.03 and 7.04)*

Upon the happening and continuance of any Event of Default, the Trustee may proceed, and upon the written request of not less than a majority of the holders of the Bonds Outstanding shall proceed, to protect and enforce its rights and the rights of the holders of the Bonds under the laws of the State and under the Indenture. If at any time there shall have occurred and be continuing an Event of Default, after payment of all amounts owing to the Trustee and the Issuer under the Indenture, amounts held by the Trustee under the Indenture together with any moneys thereafter becoming available for such purpose shall be deposited into the Revenue Fund and shall be applied as follows:

(a) unless the principal of all Outstanding 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 Outstanding, in the order in which such installments became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment of such installment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference, except as to any difference in the respective rates of interest specified in the Bonds;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of any Outstanding Bonds that shall have become due and payable, in the order of the due dates of the Bonds, with interest upon the principal amount of the Bonds from the respective dates upon which they shall have become due and payable and, if the amount available shall not be sufficient to pay in full the principal of the Bonds due and payable on any particular date, together with such interest, then first to the payment of such interest, ratably, according to the amount of interest due on such date, and then to the payment of such principal, ratably, according to the amount of principal due on such date, to the persons entitled thereto, without any discrimination or preference, except as to any difference in the respective rates of interest specified in the Bonds; and

THIRD: to the payment of the interest on and the principal of the Bonds Outstanding as the same become due and payable; and

(b) if the principal of all Outstanding Bonds shall have become due by its terms or the principal of all Outstanding Bonds subject to acceleration shall have become due and payable by a declaration of acceleration, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bonds over any other Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

### **Restrictions Upon Action by Individual Holders (Section 7.07)**

No holder of any Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust under the Indenture or for any other remedy under the Indenture unless (i) such holder previously shall have given to the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and (ii) the holders of not less than a majority of the Bonds shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the Indenture or to institute such action, suit or proceeding in its or their name, and (iii) there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request and offer of indemnity shall, at the option of the Trustee, be conditions precedent to the execution of the powers and trusts of the Indenture or to any other remedy under the Indenture; provided, however, that notwithstanding the foregoing provisions of the Indenture and without complying therewith, the holders of not less than a majority of the Bonds may institute any such suit, action or proceeding in their own names for the benefit of all holders of Outstanding Bonds.

#### **Defeasance (Section 9.01)**

If the Issuer shall pay or cause to be paid the principal or Redemption Price of and interest on all Bonds at the times and in the manner stipulated therein, in the Indenture and in any Supplemental Indenture authorizing or approving the issuance of any Additional Bonds, and pays or causes to be paid all other sums payable including, without limitation, all Administrative Expenditures, then the pledge of any Revenues and other property pledged by the Indenture to the Bonds and all other rights granted thereby to the Bonds shall be discharged and satisfied.

A Bond shall be deemed to be paid within the meaning of and for all purposes of the Indenture when: (i) payment of the principal of and Redemption Price (if any) on such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided in the Indenture) shall have been either: (A) made or caused to be made in accordance with the terms thereof, or (B) provided for by irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment the following: (1) moneys sufficient, without reinvestment, to make such payment, and/or (2) Defeasance Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment; and (ii) all necessary and proper fees, compensation and expenses of the Issuer and all Administrative Expenditures with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee in case of payments due the Trustee and in all other cases as evidenced by a certificate from the person to whom payment is due. At such times as a Bond shall be deemed to be paid under the Indenture, such Bond shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or Defeasance Obligations, as the case may be.

Notwithstanding the foregoing paragraph, no deposit under clause (i)(B) above shall be deemed a payment of a Bond as aforesaid unless (i) if such Bond is to be redeemed, proper notice of redemption of such Bond shall have been previously given in accordance with the Indenture or provision satisfactory to the Trustee and the Issuer shall have been made for the giving of such notice, (ii) there shall have been delivered to the Trustee and the Issuer a report of an Independent Public Accountant or verification agent with a favorable reputation in the field of verifying defeasance escrows verifying that the money and the principal of, and interest on, the Defeasance Obligations so deposited are sufficient to pay the principal and Redemption Price of, and interest on, the Bond through the applicable redemption date or maturity date, as the case may be, and (iii) in the event such Bond is not to be paid or redeemed within the next succeeding 60 days, until the Borrower shall have given the Trustee, on behalf of the Issuer, in form satisfactory to the Trustee, irrevocable instructions to notify, as soon as practicable, the Holder of such Bond in accordance with the Indenture, that the deposit required by (i)(B) above has been made with the Trustee and that such Bond is deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable redemption premium (if any) on such Bond, plus interest thereon to the due date thereof.

So long as no Event of Default has occurred and is continuing of which the Trustee has knowledge or is deemed to have knowledge according to the Indenture, at the written request of the Borrower, any moneys held by the Trustee in trust for the payment of any of the Bonds that remain unclaimed for one year after the later of the date at which such Bonds became due and payable and the date of deposit of such moneys shall be repaid by the Trustee to the Borrower, or to such officer, board or body as may then be entitled by law to receive such moneys, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect

thereto; provided, however, that before being required to make any such payment to the Borrower, the Trustee may, at the expense of the Borrower, cause to be published in an Authorized Baltimore Newspaper and an Authorized New York Newspaper a notice that such moneys remain unclaimed and that, after a date named in such notice, which date shall be not fewer than 40 nor more than 90 days after the date of publication of such notice, the balance of such moneys shall be returned to the Borrower. After the payment of such unclaimed moneys to the Borrower, the Owners of such Bonds shall look only to the Borrower for the payment thereof and all liability of the Issuer, the Trustee and the Paying Agent shall cease upon such payment to the Borrower.

#### **No Personal Liability of the Issuer's Officials; Obligations of Issuer Limited (Section 10.06)**

The Bonds, the interest thereon, and the Redemption Price and the purchase price thereof, are not debts or charges against the general credit or taxing powers of the State, the Department, the Issuer or any other public body within the meaning of any constitutional or charter provision or statutory limitation and may not give rise to any pecuniary liability of the State, the Department, the Issuer or any other public body. The Bonds and the interest thereon and the Redemption Price thereof are limited obligations of the Issuer payable from the Revenue Fund or any other moneys made available to the Issuer for such purpose, and shall be a valid claim of the respective Owners thereof only against the Revenues and other moneys pledged thereto and which constitute the Trust Estate, which are assigned by the Indenture for the equal and ratable payment of the Bonds and the interest thereon and shall be used for no other purpose than to pay the principal of and interest on, and the Redemption Price of, the Bonds, except as may be otherwise expressly authorized in the Indenture.

In accordance with Section 5-418 of the MIDFA Act, neither the members of the Issuer, nor any person executing the Bonds or any agreement entered into by the Issuer under the Act, nor any employee of the State, the Department or the Issuer is personally liable on the Bonds or such agreement or subject to personal liability or accountability arising from the issuance, execution or delivery thereof. Each Bond, on its face, shall plainly state that it has been issued under the provisions of the Act and that it is not a debt to which the faith and credit of the State, the Department, the Issuer or any other public body of the State is pledged.

It is recognized that, notwithstanding any other provision of the Indenture, no Owner shall look to the Issuer for damages suffered by such Owner as a result of the failure of the Issuer to perform any covenant, undertaking or obligation under any of the Bond Documents, or as a result of the incorrectness of any representation made by the Issuer in the Bond Documents. Although the Indenture recognizes that the Bond Documents shall not give rise to any pecuniary liability of the Issuer, nothing contained in the Indenture shall be construed to preclude in any way any action or proceeding (other than that element of any action or proceeding involving a claim for monetary damages against the Issuer) in any court or before any governmental body, agency or instrumentality or otherwise against the Issuer or any of its officers or employees (but only in their official capacities) to enforce the provisions of any of the Bond Documents.

Although the Issuer may have the right to seek remedies in the event of a default by the Borrower, the Issuer, by the Indenture, assigns the rights to take action to the Trustee in order to implement the purposes and intent of the Act, namely, to facilitate the financing and refinancing of the 2019 Facility and any Additional Facilities by the Borrower without incurring any pecuniary obligation or liability by the Issuer. In any cases where action by the Trustee requires simultaneous or subsequent action by the Issuer, the Issuer, at the expense of the Borrower, will cooperate with the Trustee and take any and all action reasonably necessary to effectuate the purposes and intent of the Indenture.

The Issuer shall not be required to do any act whatsoever or exercise any diligence whatsoever (other than to perform its limited obligations under the Indenture and under the other Bond Documents) to mitigate any damages of the Borrower or any other person if any Event of Default shall occur under the Indenture or under any of the other Bond Documents.

#### **Construction of Indenture by Trustee (Section 6.18)**

The Trustee may construe any of the provisions of the Indenture insofar as the same may appear to be ambiguous or inconsistent with any other provision thereof, and any construction of any such provisions thereof by the Trustee in good faith shall be binding upon the holders of the Bonds.

#### **Responsibilities of Trustee (Sections 6.02 and 6.03)**

Except as otherwise expressly provided, the Trustee shall have no responsibility or duty with respect to: (i) the issuance of the Bonds for value; (ii) the application of the proceeds thereof, except to the extent that such

proceeds are received by it in its capacity as Trustee or Paying Agent; or (iii) the application of any moneys paid in accordance with the Indenture except as to the application of any moneys paid to it in its capacity as Trustee or Paying Agent. The duties and obligations of the Trustee shall be determined by the express provisions of the Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in the Indenture and no implied covenants shall be read into the Indenture against the Trustee. The Trustee shall not be liable for any action taken or omitted by it in the performance of its duties under the Indenture except for its own negligence or willful misconduct or if the Trustee is otherwise protected with respect to such act or omission under the provisions of the Indenture. The Trustee shall not be responsible for any determination or calculation concerning arbitrage rebate with respect to the Bonds, for making any determination with respect to any insurance or insurance companies, for collecting any insurance monies or for determining whether the yield on any investments made under the Indenture would cause, or whether any other facts exist which would cause, Tax-Exempt Bonds to become arbitrage bonds under Section 148 of the Code.

The Trustee shall be under no obligation to institute any suit, to undertake any proceeding under the Indenture, to enter any appearance or in any way defend in any suit in which it may be made defendant or to take any steps in the execution of the trusts created thereby or in the enforcement or any rights and powers thereunder until it shall be indemnified to its satisfaction against all liability except as a consequence of its own gross negligence or willful misconduct. Nevertheless, the Trustee may take such action without indemnity, and in such case the Trustee shall reimburse itself, to the extent not reimbursed by the Borrower, from the Revenues for all costs and expenses properly incurred in connection therewith, and the Trustee shall be entitled to a preference therefor over any Bonds Outstanding under the Indenture.

#### **Trustee Resignation and Removal (Sections 6.11 and 6.12)**

The Trustee may at any time resign and be discharged by giving not fewer than 30 days' written notice to the Issuer, the Borrower and each Holder of any Outstanding Bonds. Such resignation shall take effect upon the appointment of a successor by the Issuer (at the direction of the Borrower) or the Holders of Outstanding Bonds as provided below under "Successor Trustee" and the acceptance of such appointment by such successor.

The Trustee may be removed at any time by the holders of a majority of the Outstanding Bonds by a written instrument by such holders or by their attorneys-in-fact, duly authorized and delivered to the Issuer and the Trustee or, if no Event of Default, or an event that with the giving of notice or lapse of time or both would become an Event of Default, under the Bond Documents has occurred or is continuing, by the Borrower by an instrument in writing signed and acknowledged by the Borrower, duly authorized and delivered to the Issuer and the Trustee. The Trustee may also be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the Indenture by any court of competent jurisdiction upon the application of the Issuer or of the Holders of not less than ten percent (10%) of the Outstanding Bonds. Any removal shall take effect upon the appointment of a successor by the Issuer (at the direction of the Borrower), the Holders of Outstanding Bonds, or the Borrower as provided below and the acceptance of such appointment by such successor.

#### **Successor Trustee (Section 6.13)**

If the Trustee shall resign, be removed, be dissolved or become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee or of its property shall be appointed, or if any public officer shall take charge or control of the Trustee or of its property or affairs, the position of the Trustee under the Indenture shall thereupon become vacant, and a successor Trustee may be appointed within one year after any such vacancy shall have occurred by the holders of a majority of the Outstanding Bonds by a written instrument by such holders or their attorneys-in-fact, duly authorized and delivered to such successor Trustee, with notification thereof being given to the predecessor Trustee, the Issuer and the Borrower or, if no Event of Default, or an event that with the giving of notice or lapse of time or both would become an Event of Default, under the Bond Documents has occurred or is continuing, by the Borrower by an instrument in writing signed and acknowledged by the Borrower, duly authorized and delivered to such successor Trustee, with notification thereof being given to the predecessor Trustee and the Issuer. Until such successor Trustee shall have been appointed by the holders of Bonds or the Borrower, the Issuer, at the instruction of the Borrower, shall forthwith appoint a Trustee.

If no appointment of a successor Trustee shall be made within 45 days after the giving by any Trustee of any written notice of resignation or after the occurrence of any other event requiring or authorizing such

appointment, the Trustee or any holder of Outstanding Bonds may apply to any court of competent jurisdiction for the appointment of such a successor.

Any successor Trustee appointed under the provisions described above shall be a commercial bank or trust company or national banking association (i) having a capital and surplus aggregating at least \$50,000,000, or a subsidiary bank or trust company whose capital and surplus, together with its parent bank, trust company or bank holding company, as the case may be, is at least \$50,000,000, if there be such a commercial bank or trust company or national banking association willing and able to accept the appointment on reasonable and customary terms, and (ii) authorized by law to perform all the duties of the Trustee required in the Indenture.

**Notice of Events of Default (Section 6.17)**

The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Indenture or the Loan Agreement other than the failure to pay the principal of or interest on, any Bond unless an officer, agent or employee of the Trustee responsible for matters relating to the Bonds shall have actual knowledge of such default or Event of Default, or the Trustee shall have been specifically notified in writing of such default or Event of Default by holders of at least a majority of the Bonds then Outstanding or by the Issuer.

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## **SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT**

The following is a summary of certain provisions of the Loan Agreement. This is not a complete recital of the terms of the Loan Agreement and reference should be made to it for its complete terms. Words and terms used in this summary shall have the same meaning as in the Loan Agreement, except where otherwise noted.

### **Duration of Loan Agreement (Section 3.01)**

The Loan Agreement shall remain in full force and effect from the date of its execution and delivery until the date on which the Indenture shall be discharged and satisfied in accordance with the provision described above under “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Defeasance.”

### **Acquisition and Improvement of the 2019 Facility and Additional Facilities (Sections 4.01, 4.02 and 4.03)**

The net proceeds of the Series 2019 Bonds shall be used to finance the Costs of the 2019 Facility by the deposit of such proceeds in accordance with the Indenture.

The Borrower shall deliver a certificate to the Issuer and the Trustee on or before February 21, 2024 detailing the status of the components of the 2019 Facility funded with proceeds of the Series 2019 Bonds in a form satisfactory to the Issuer. Such certificate shall include information regarding components of 2019 Facility that were completed, in progress or halted.

The Borrower shall employ one or more Architects responsible for the acquisition and construction of the 2019 Facility and any Additional Facilities. Each Architect’s duties shall include such duties as the Borrower’s contract with the Architect may specify. The Borrower shall pay the Costs of the 2019 Facility that are in excess of the amount available therefor from the proceeds of the Series 2019 Bonds and any investment earnings on such proceeds. The Borrower shall pay the costs of acquisition and improvement of any Additional Facilities financed with the proceeds of Additional Bonds in excess of the amount of moneys available therefor from the proceeds of Additional Bonds and any investment earnings on such proceeds.

### **Loan Payments (Sections 3.02 and 3.03)**

The Borrower shall timely pay (i) the total interest becoming due on all Bonds to the respective dates of payment thereof; (ii) the total principal amount of all Bonds; (iii) all redemption premiums (if any) payable on the Bonds; and (iv) the Costs of Issuance.

The Borrower shall pay to the Trustee the Administrative Expenditures owing to the Trustee.

In addition, at the times required by the Borrower’s Tax Certificate, the Borrower shall pay to the Trustee for deposit in the Rebate Fund moneys sufficient to satisfy the requirements of the Borrower’s Tax Certificate with respect to the Rebate Amount.

In order to provide for the payment of the amounts due under the Loan Agreement with respect to the Series 2019 Bonds, the Borrower shall pay an amount equal to the sum of the following:

(i) on the twenty-fifth day of each February and August commencing August 25, 2019, the amount, if any, necessary to make the amount on deposit in the Interest Account equal to the amount of accrued and unpaid interest on the Series 2019 Bonds as of the immediately succeeding Interest Payment Date;

(ii) on the twenty-fifth day of each August commencing August 25, 2019 the amount required to make the amount on deposit in the Principal Account equal to the principal amount, if any, due on the Series 2019 Bonds Outstanding on the immediately succeeding September 1; and

(iii) on the twenty-fifth day of each August commencing August 25, 20\_\_ the amount required to make the amount on deposit in the Sinking Fund Account equal to the Sinking Fund Installment for the Series 2019 Bonds, if any, due on the immediately succeeding September 1.

The Loan Agreement is a general obligation of the Borrower and the full faith and credit of the Borrower is pledged to the payments required under the Loan Agreement.

### **Operation and Maintenance of Property; Payment of Impositions (Sections 5.01, 5.03 and 8.09)**

The Borrower shall operate the Property in a sound and economical manner and shall maintain, preserve and keep the Property in good condition and repair. The Borrower shall make all necessary and proper repairs, replacements and renewals so as to conduct the operation of the Property in accordance with all applicable governmental operating standards. The Borrower shall operate the 2019 Facility and any Additional Facilities financed with the proceeds of Bonds as facilities permitted to be financed and refinanced under the Act and any applicable federal law. The Borrower shall pay all expenses, including without limitation, all extraordinary expenses, of maintaining, repairing and replacing the Property to the extent necessary to permit the Borrower to make the payments required the Loan Agreement and to perform its obligations thereunder, except insofar as funds are available from insurance proceeds to pay such expenses in accordance with the Loan Agreement. The Borrower shall pay all governmental impositions and assessments, if any, levied or assessed upon or in respect of the Property or upon any part thereof or any revenue therefrom, all ground rents, if any, on the Property and all costs of operating, maintaining, repairing and replacing the Property and its equipment.

### **Additions to Property (Section 7.01)**

Any additions, improvements and extensions to the Property and repairs, renewals and replacements thereof shall upon their acquisition become part of the Property.

### **Disposition of Assets (Section 7.02)**

Except as otherwise permitted by the Loan Agreement and except for dispositions in the ordinary course of business, the Borrower shall not demolish, remove, sell, lease, loan, assign, transfer or otherwise dispose of any of its property, including (without limitation) cash, marketable securities, receivables or any property, structures, machinery or other improvements of the Borrower during any Fiscal Year, except as otherwise provided in the Loan Agreement.

(a) Subject to the further provisions of this section, the Borrower may demolish, remove, sell, lease, loan, assign, transfer or otherwise dispose of any of its property in any Fiscal Year.

(i) if the aggregate fair market value of all property disposed of by the Borrower pursuant to this subparagraph (a)(i) in such Fiscal Year does not exceed five percent (5%) of the total unrestricted operating revenues as shown in the most recent audited financial statements filed with the Trustee as required by the Loan Agreement; or

(ii) if the Borrower shall receive in consideration of the disposition of such property an amount at least equal to the fair market value of such property immediately prior to such disposition.

(b) Notwithstanding the foregoing provisions of this section, the Borrower shall be permitted to dispose of property as described above only if (i) at the time of such disposition, no Event of Default or event that, with notice or lapse of time or both, would constitute an Event of Default shall have occurred and be continuing (except if such disposition cures the Event(s) of Default), (ii) such disposition will not materially impair the structural soundness or the operating efficiency and integrity of any material portion of the Property, (iii) in the case of any disposition of property constituting the 2019 Facility or any Additional Facilities financed with the proceeds of Tax-Exempt Bonds (other than any such property that has been lost, stolen, destroyed or damaged beyond repair, that has become worn out or unfit for use for any reason or that is removed for the purpose of repair), the Issuer and the Trustee shall have received an opinion of Bond Counsel to the effect that the disposition of such property will not violate the provisions of the Act or adversely affect the excludability from gross income for federal income tax purposes of the interest paid on any Tax-Exempt Bonds theretofore issued, and (iv) the Borrower has obtained such rights-of-way, easements and other rights in land as are required for ingress to and egress from the remaining Property, for the utilization of the 2019 Facility and Additional Facilities located on the Property and for utilities required to serve the Property.

(c) Any net proceeds in the form of cash, marketable securities or other liquid assets received by the Borrower from the disposition of any property financed with the proceeds of Tax-Exempt Bonds shall be paid over to the Trustee by the Borrower for deposit into the Redemption Fund if required for Bond Counsel to deliver the opinion described in (b) above.

Nothing described above shall be construed to restrict the right of the Borrower (i) to purchase or sell any property in the ordinary course of business, (ii) to transfer cash, securities or other investment properties in



connection with ordinary investment transactions, (iii) to purchase or lease any property for cash at its fair market value, (iv) to lease the Owings Mills Corporate Center, (v) to dispose of worn out or obsolete property, (vi) to demolish, remove, sell, lease, loan, assign, transfer or otherwise dispose of any of its property that is not used in connection with its educational mission or (vii) to demolish and replace any of its property.

#### **Partial Release of Liens (Section 7.03)**

The Issuer and the Trustee, at the expense of the Borrower, shall execute and deliver any instrument necessary or appropriate (i) to confirm, grant or convey any property or interest therein transferred in accordance with the Loan Agreement as described above under “Disposition of Assets” and to release such property or interest therein from the liens and security interests granted to the Issuer and the Trustee as security for outstanding Bonds.

#### **Annual Audit of Borrower (Section 8.08)**

Within 150 days of the end of each Fiscal Year, the Borrower shall cause financial statements of the Borrower to be prepared with respect to such Fiscal Year in accordance with generally accepted accounting principles, consistently applied, which financial statements shall be audited by, and accompanied by a report of, an Independent Public Accountant. Such financial statements and reports shall be delivered upon completion to the Trustee, and, upon request, to the Issuer.

The Trustee shall act only as a repository for, and shall have no obligation to review, any financial statements submitted by the Borrower pursuant to the Loan Agreement.

#### **Limitations on Merger, Consolidation, Acquisition and Transfer of Assets (Section 8.10)**

The Borrower shall not merge or consolidate with, transfer all or substantially all of its assets to or acquire all or substantially all of the assets of any other person, unless each of the following conditions is satisfied: (a) the surviving, resulting or transferee corporation (the “Surviving Corporation”) (i) shall be a 501(c)(3) corporation organized under the laws of the United States or any state, district, or territory thereof and (ii) shall assume in writing all of the obligations of the Borrower under the Loan Agreement; (b) the Debt Service Coverage Ratio for each of the two Fiscal Years after the date on which the merger, consolidation, acquisition or transfer is to take effect is projected to be at least 1.00 as evidenced by a certificate of an Authorized Officer of the Borrower accompanied by forecasted statements of revenues and expenses and a statement of relevant assumptions upon which such forecasted statements are based; (c) at least 30 days prior to effecting such merger, consolidation, acquisition or transfer, there shall be filed with the Trustee and the Issuer (i) an opinion of Bond Counsel to the effect that the consummation of such merger, consolidation, acquisition or transfer will not adversely affect the excludability from gross income for federal income tax purposes of the interest paid on any Tax-Exempt Bonds theretofore issued, (ii) an opinion of Independent Counsel to the effect that each participant in such merger, consolidation, acquisition or transfer has obtained all necessary governmental, board and other consents and approvals for such consolidation, merger, acquisition or transfer, and (iii) any other opinion, report, document, evidence, undertaking or other action that the Trustee or the Issuer reasonably may require; and (d) immediately following such merger, consolidation, acquisition or transfer, no Event of Default or event that, with notice or lapse of time or both, would constitute an Event of Default, shall have occurred and be continuing.

Notwithstanding the foregoing, the following transaction shall not be deemed to constitute a merger, consolidation or transfer of assets: the participation of the Borrower in a corporate reorganization the result of which is the creation of a new corporation which shall be the parent corporation of the Borrower and of other entities now existing or to be formed (and have control thereof either by virtue of the power to appoint the trustees or directors for such entities or by virtue of being the sole member or stockholder of such entities, or otherwise), provided that such reorganization does not have the effect of relieving the Borrower from its obligations under the Loan Agreement; provided, however, that prior to effecting any such reorganization, the Borrower shall comply with the requirements set forth in clauses (b), (c) and (d) above.

#### **Additional Indebtedness (Section 8.11)**

The Borrower shall not incur or permit to exist any Indebtedness, except as follows:

- (a) Indebtedness evidenced by the Loan Agreement;
- (b) Indebtedness incurred in connection with the provision to any applicable governmental entity of a letter or letters of credit or a performance bond or bonds assuring completion of improvements at the Campus;

(c) Short-Term Indebtedness in an aggregate principal amount which, taken together with any other Short-Term Indebtedness then outstanding, does not exceed twenty percent (20%) of total unrestricted operating revenues as reported on the most recent audited financial statements of the Borrower filed with the Trustee pursuant to the Loan Agreement; provided, however, that the Borrower shall have no such Short-Term Indebtedness Outstanding on any day unless during the 12-calendar month period immediately preceding such day there has been a period of at least 20 consecutive days during which no such Short-Term Indebtedness has been Outstanding;

(d) Long-Term Indebtedness, if the Trustee shall have received a certificate of an Authorized Officer of the Borrower to the effect that, after giving effect to the incurrence of the proposed Long-Term Indebtedness, either (i) the Debt Service Coverage Ratio for each of the last two Fiscal Years for which audited financial statements of the Borrower have been filed with the Trustee pursuant to the Loan Agreement would be 1.00 or (ii) the Maximum Annual Debt Service for all Long-Term Indebtedness of the Borrower would not exceed 12% of total operating expenses as shown in the most recent audited financial statements filed with the Trustee as required by the Loan Agreement or (iii) the projected Debt Service Coverage Ratio for each of the two full Fiscal Years following the incurrence of such Long-Term Indebtedness or, in the case of the incurrence of such Long-Term Indebtedness for capital improvements, following the completion of the facilities being financed, is not less than 1.00. Any Authorized Officer's certificate provided in connection with clause (iii) shall be accompanied by appropriate projections and shall contain a statement that to the best of the Borrower's knowledge and belief, sufficient revenues and cash flow will be generated either through gifts and/or new project related revenues to meet the projected operating expenses (including debt service on the proposed Long-Term Indebtedness) during such two full Fiscal Years;

(e) Non-Recourse Indebtedness, if the Trustee shall have received a certificate of an Authorized Officer of the Borrower describing generally the facilities to be financed with the proceeds of such Non-Recourse Indebtedness; and

(f) indebtedness described in "ADDITIONAL DEBT – Outstanding Indebtedness" of this Official Statement.

The Borrower shall not incur any Indebtedness for the purpose of making any loans to any other person or upon the occurrence and continuance of an Event of Default.

#### **Non-Sectarian Use (Section 8.12)**

The Borrower has not permitted and will not permit any portion of the assets of the Borrower financed with the proceeds of the Bonds to be used (i) for sectarian religious instruction or study or as a place of sectarian religious worship or as a facility used primarily in connection with any part of a program of a school or department of divinity for any religious denomination or the training of ministers, priests, rabbis or other similar persons in the field of religion or (ii) in a manner which is prohibited by the Establishment of Religion Clause of the First Amendment to the Constitution of the United States of America and the decisions of the United States Supreme Court interpreting the same or by any comparable provisions of the Constitution of the State of Maryland and the decisions of the Court of Appeals of the State of Maryland interpreting the same. Notwithstanding the foregoing provisions of the paragraph, if the Borrower receives an opinion of Bond Counsel addressed to the Borrower and the Issuer that compliance with the foregoing restrictions is no longer necessary under applicable law, the Borrower shall no longer be required to comply with such restrictions.

#### **Encumbrances; Further Assurances by Borrower (Section 8.13)**

Except for Permitted Encumbrances, the Borrower shall neither create any Encumbrance nor allow any Encumbrance to remain against any portion of the Operating Assets.

The Borrower shall execute, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming any rights, security interests in the moneys, securities, funds and assets pledged or assigned to the Issuer or the Trustee, or intended to be, or that the Borrower may hereafter become bound to mortgage, pledge or assign.

#### **Compliance with Rollins-Luetkemeyer Foundation Pledge (Section 8.22)**

The Borrower shall comply in full with the terms, provisions and conditions of the Rollins-Luetkemeyer Foundation Grant as such exist from time to time.

### **Insurance (Section 6.01)**

The Borrower shall keep the Property adequately insured at all times and shall maintain with responsible insurers with respect to its facilities and operations insurance of such types, in such amounts and against such risks as are customarily maintained by persons in similar circumstances having facilities of a comparable type and size and offering comparable services as those of the Borrower.

The Borrower may satisfy the requirements set forth in the immediately preceding paragraph by establishing and maintaining a self-insurance plan protecting the Borrower against the risks required to be insured against as described above. Any self-insurance plan shall provide for (i) establishment by the Borrower of a segregated fund of cash or marketable securities for the defense and payment of claims arising from such risks, (ii) funding of such fund in initial and subsequent amounts determined annually by an Independent Actuary employing accepted actuarial techniques customarily employed by the casualty insurance industry, such actuarial determination to be submitted to the Trustee within 60 days from the end of each Fiscal Year, (iii) annual reporting to the Trustee of the current fund balance of such fund as of the end of each Fiscal Year and an evaluation of the aggregate potential effect on the fund balance of claims asserted and pending that could ultimately be payable from such fund, such reports to be submitted within 60 days after the end of each Fiscal Year, and (iv) establishment and operation of a claims processing and risk management program. In connection with any such self-insurance plan, the Borrower shall furnish to the Trustee, annually within 60 days after the end of each Fiscal Year, (A) a letter from an Independent Actuary to the effect that the self-insurance plan is maintaining adequate reserves and has been adequately funded and (B) a report with respect to the claims processing and risk management program referred to in item (iv) above.

Biennially, within 60 days after the end of the applicable Fiscal Year (commencing with the Fiscal Year ending June 30, 2021), the Borrower shall employ an Independent Insurance Consultant to review its insurance coverage and shall furnish to the Trustee signed copies of the report of such Independent Insurance Consultant. Such report shall state whether, in the opinion of such Independent Insurance Consultant, the Borrower has satisfied the insurance requirements of the Loan Agreement as of the last day of such Fiscal Year. After review of the findings of the Independent Insurance Consultant and the approval by the Board of Trustees of the Borrower, the Borrower shall increase or otherwise modify the kinds and amounts of insurance maintained by the Borrower so that the coverages maintained by the Borrower remain in substantially the same coverages as are customarily maintained by persons in similar circumstances having facilities of a comparable size and offering comparable services as those of the Borrower.

The Borrower shall furnish to the Trustee certificates of insurance carried with respect to the Borrower, the Property and the operation, maintenance and administration of the Property, and, upon reasonable request, complete copies of all policies. The Borrower shall deliver to the Trustee certificates of renewal of any insurance at least 10 days prior to the expiration of any policy of insurance.

Annually, within 60 days after the end of each Fiscal Year, the Borrower shall employ, at the expense of the Borrower, an Independent Actuary for the purposes of reviewing any self-insurance plan that may be established and operated pursuant to the Loan Agreement and of making recommendations concerning the appropriate level of funding and soundness of reserves maintained by such self-insurance plan. The Borrower shall cause a signed copy of any report of such Independent Actuary to be filed with the Trustee.

Neither the Issuer nor the Trustee shall have any responsibility with respect to any insurance required under the Loan Agreement, except that the Trustee shall receive the letters and opinions required to be delivered in accordance with the Loan Agreement and shall hold the same for inspection by any holder of Bonds. The Trustee and the Issuer shall be entitled to rely upon any opinions, letters, certifications, recommendations and reports provided in accordance with the Loan Agreement and shall have no responsibility or duty to conduct any independent inquiry or investigation as to the adequacy or enforceability of any insurance procured or maintained by the Borrower or as to whether the Borrower has in fact procured and maintained the required insurance. No acceptance or approval of any insurance policy by the Trustee shall relieve or release the Borrower from any liability, duty or obligation under the provisions of the Loan Agreement.

### **Management Consultant (Section 8.15)**

For the purpose of performing the duties imposed on the Management Consultant by the Indenture and the Loan Agreement, the Borrower shall employ a Management Consultant from time to time as required by the provisions of the Indenture or the Loan Agreement.

Notwithstanding anything to the contrary contained in the Loan Agreement or in the Indenture, the Borrower shall not be required to concur with a recommendation contained in the report of a Management Consultant that (i) conflicts with law or existing contracts or (ii) the Board of Directors of the Borrower has determined by resolution to be unreasonable, impractical or unfeasible, nor shall the Borrower be obliged to implement any such recommendation, if, in the reasonable judgment of the Management Consultant, such failure to concur with or to implement such recommendation will not prevent the implementation of other recommendations that are sufficient in the aggregate to enable the Borrower to rectify, within a reasonable period of time, the circumstance giving rise to employment of such Management Consultant.

**Application of Proceeds of Condemnation and Insurance; Extraordinary Redemption of Bonds (Section 6.03)**

The Issuer and the Borrower shall pay over to the Trustee for deposit in the Insurance and Condemnation Award Fund upon receipt thereof (i) the proceeds of the 2019 Facility and any Additional Facilities taken in the exercise of the power of eminent domain, condemnation or through the exercise of any right or any obligation on the part of any public authority to purchase the same, or as a result of any agreement between the Borrower and the applicable governmental authority or the State (“condemnation proceeds”), and (ii) any insurance proceeds payable in connection with the loss, damage or destruction of any Property (“casualty insurance proceeds”).

Casualty insurance proceeds or condemnation proceeds relating to the 2019 Facility or any Additional Facilities paid to the Trustee as described above (except any money paid to Borrower as described in the Loan Agreement) shall be applied as follows:

- (i) The Borrower may elect to apply such proceeds to the repair or replacement of the lost, damaged, destroyed or taken property constituting the 2019 Facility or any Additional Facilities, if: (A) the Borrower delivers to the Trustee a certificate of an Architect setting forth his or her estimate of the cost of repairing or replacing the lost, damaged, destroyed or taken property to be repaired or replaced and the time required therefor; and (B) the Borrower delivers to the Trustee a certificate of an Authorized Officer of the Borrower to the effect that (1) the amount of such proceeds, together with any other moneys deposited or available for deposit in the Insurance and Condemnation Award Fund (which may include, without limitation, amounts available to be drawn under a letter of credit, guaranty or other instrument in form and substance satisfactory to the Trustee delivered to the Trustee for the credit of such Insurance and Condemnation Award Fund) will be sufficient to pay the costs of repairing or replacing the lost, damaged, destroyed or taken property to be repaired or replaced and (2) the Debt Service Coverage Ratio (taking into account proceeds of insurance available to the Borrower) for each Fiscal Year during the period of restoration is projected to be at least 1.00.
- (ii) The Borrower may elect to apply such proceeds to the redemption of the Outstanding Bonds if: (A) the Borrower delivers to the Trustee a certificate of an Authorized Officer of the Borrower to the effect that the Debt Service Coverage Ratio (after giving effect to such application of such proceeds) is projected to be at least 1.00 for the Fiscal Year in which the redemption is to be made; or (B) the Borrower shall pay to the Trustee for deposit in the Insurance and Condemnation Award Fund an amount of money that, together with any other moneys held to the credit of the funds and accounts created by the Indenture, shall be sufficient to provide for the redemption of all Outstanding Bonds in the manner provided by the Indenture.
- (iii) The Borrower may elect to apply a portion of such proceeds to the repair or replacement of the lost, damaged, destroyed or taken property and to apply the remaining proceeds to the redemption of Outstanding Bonds so long as the Borrower shall satisfy the requirements of paragraph (i) above.
- (iv) The Borrower shall elect to apply such proceeds in accordance with paragraph (i), (ii) or (iii) above within six months of such loss, damage, destruction or taking. If the Borrower does not provide the Trustee with written notice of such election, together with satisfactory evidence that it is entitled to apply such proceeds in accordance with paragraphs (i), (ii) or (iii) above within six months of the Trustee’s receipt of notice of such loss, damage, destruction or taking, the Trustee shall promptly employ a Management Consultant at the expense of the Borrower, to submit a written report and recommendations as to the use of such proceeds that should result in the maximum feasible Debt Service Coverage Ratio. Such report shall include a financial projection

for a period extending at least through the second full Fiscal Year after the date of completion of any repairs or replacements recommended by such Management Consultant. Such proceeds shall be applied in accordance with the recommendations of such Management Consultant.

- (v) Notwithstanding anything to the contrary in the Loan Agreement contained, with respect to casualty insurance proceeds or condemnation proceeds of less than the greater of \$5,000,000 or five percent (5%) of the Borrower's net property and equipment as shown on the most recent audited financial statements, per occurrence, the Borrower may, in its sole discretion, apply such proceeds to either the restoration, repair or replacement of the lost, damaged, destroyed or taken property or the redemption of the Bonds. Any such proceeds, if for restoration, repair or replacement, shall be paid to the Borrower.

#### **Events of Default (Section 9.01)**

The following shall be "Events of Default" under the Loan Agreement: (a) failure by the Borrower to pay when due the principal or redemption price or interest on any Bond; (b) failure by the Borrower to pay when due any other amount required to be paid under the Loan Agreement, which failure shall continue for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the Trustee; (c) failure by the Borrower in the due observance and performance of any covenant, condition or agreement contained in the Loan Agreement with respect to insurance, the disposition of assets, limits on the merger, consolidation, acquisition and transfer of assets, additional indebtedness and liens and encumbrances; (d) failure by the Borrower to perform, observe or comply with any other of the terms, covenants, conditions or provisions contained in the Loan Agreement, which failure shall continue for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Borrower by the Trustee; provided, however, that if the Borrower shall proceed to make any repair, restoration or replacement or take any curative action that, if begun and prosecuted with due diligence, cannot be completed within a period of 30 days, then such period shall be increased to such extent as shall be necessary to enable the Borrower to complete such repair, restoration or replacement or other curative action through the exercise of due diligence; (e) abandonment by the Borrower of the Property or any substantial part thereof, or the operations therein, which abandonment shall continue for a period of 30 days after written notice thereof shall have been given to the Borrower by the Trustee; (f) if the Borrower shall become insolvent or the subject of insolvency proceedings or shall file a petition or other pleading seeking an "order for relief" within the meaning of the United States Bankruptcy Code, or shall file any petition or other pleading seeking any reorganization, composition, readjustment, liquidation of assets or similar relief for itself under any present or future law or regulation, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of the Borrower, or of substantially all of the assets of the Borrower, or shall make a general assignment for the benefit of creditors, or shall be unable or admit in writing its inability to pay its debts generally as they become due; (g) if a petition or other pleading shall be filed against the Borrower seeking an "order for relief" within the meaning of the United States Bankruptcy Code or any reorganization, composition, readjustment, liquidation of assets or similar relief under any present or future law or regulation, and shall remain undismissed or unstayed for a period of 90 days, or if, by an order or decree of a court of competent jurisdiction, the Borrower shall become the subject of an "order for relief" within the meaning of the United States Bankruptcy Code or relief shall be granted under or pursuant to any such petition or other pleading, or if, by order or decree of such court, there shall be appointed, without the consent or acquiescence of the Borrower, a trustee in bankruptcy or reorganization or a receiver or liquidator of the Borrower or of all or any substantial part of the property of the Borrower, and any such order or decree shall have continued unvacated or unstayed, on appeal or otherwise, and in effect for a period of 90 days; (h) loss of excludability from gross income for federal income tax purposes of the interest on any Tax-Exempt Bonds theretofore issued as a result of any action by the Borrower; (i) default in the payment of the principal of or interest on any Outstanding Indebtedness of the Borrower (other than the Loans), or default under any indenture, agreement or other similar instrument under which any such Indebtedness may be issued, which default permits the acceleration of the maturity of such Indebtedness; provided, however, it shall not constitute an Event of Default if the Borrower certifies to the Trustee that the default is being contested by the Borrower in good faith and by appropriate proceedings; and (j) if any material representation or warranty made in the Loan Agreement or in any report, certificate, financial statement, opinion or other instrument furnished in connection with the making of the Loans or the issuance of the Bonds proves to be false or misleading in any material respect when made or affirmed.

### **Remedies (Section 9.02)**

Upon the occurrence of an Event of Default and upon written notice thereof to the Borrower, the Trustee may, and upon the written request of not less than a majority of the Bondholders shall, (i) upon the declaration of acceleration of Outstanding Bonds pursuant to the Indenture, accelerate the payment of the Loans made with the proceeds of any Series of Bonds upon notice to the Borrower, whereupon the entire unpaid principal of such Loan and all interest accrued thereon and all amounts to be paid under the Loan Agreement shall immediately become due and payable without further demand upon the Borrower, and (ii) take any action at law or in equity to collect the payments due and thereafter to become due, or to enforce the performance and observance of any obligation, agreement or covenant of the Borrower under the Loan Agreement.

### **Maryland UCC (Section 9.03)**

Upon the occurrence of an Event of Default, the Trustee may proceed under the Maryland UCC as to any property subject to the lien of the Loan Agreement or the Indenture and in conjunction therewith to exercise all of the rights, remedies and powers of a secured party under the Maryland UCC. Moneys realized upon any action under the Loan Agreement shall be deposited by the Trustee in the Revenue Fund for payment of Outstanding Bonds as provided in the Indenture.

### **Voluntary Prepayment (Section 10.01)**

The Borrower shall have the right to make voluntary payments in any amount to the Trustee for the account of the Issuer, which voluntary payments shall be deposited in the Revenue Fund for immediate payment to the Redemption Fund as directed by the Borrower. Upon deposit of such moneys, the Trustee shall redeem Bonds in accordance with the Indenture.

### **Limited Liability of the Issuer (Section 11.04)**

In the exercise of the powers of the Issuer and its officials, officers, members, employees and agents under the Indenture, or the Loan Agreement, including (without limitation) the application of moneys, the investment of funds and disposition of the Property upon the occurrence of an Event of Default by the Borrower, the Issuer shall not be accountable to any person for any action taken or omitted by it or its officials, officers, members, employees or agents.

In accordance with Section 5-418 of the MIDFA Act, neither the members of the Issuer, nor any person executing the Bonds or any agreement entered into by the Issuer under the Act, nor any employee of the State, the Department or the Issuer shall be personally liable on the Bonds or such agreement or be subject to any personal liability or accountability arising from the issuance, execution or delivery thereof.

It is recognized that, notwithstanding any other provision of the Loan Agreement, no Owner shall look to the Issuer for damages suffered by such Owner as a result of the failure of the Issuer to perform any covenant, undertaking or obligation under any of the Bond Documents, or as a result of the incorrectness of any representation made by the Issuer in the Bond Documents. Although the Loan Agreement and the Indenture recognize that the Bond Documents shall not give rise to any pecuniary liability of the Issuer, nothing contained in the Loan Agreement shall be construed to preclude in any way any action or proceeding (other than that element of any action or proceeding involving a claim for monetary damages against the Issuer) in any court or before any governmental body, agency or instrumentality or otherwise against the Issuer or any of its officers, members, or employees (but only in their official capacities) to enforce the provisions of any of the Bond Documents.

Although the Issuer may have the right to seek remedies in the event of a default by the Borrower, the Issuer, by the Indenture, assigned the rights to take action to the Trustee in order to implement the purposes and intent of the Act, namely, to facilitate the financing and refinancing of the 2019 Facility and any Additional Facilities by the Borrower without incurring any pecuniary obligation or liability by the Issuer. In any cases where action by the Trustee requires simultaneous or subsequent action by the Issuer, the Issuer at the expense of the Borrower, will cooperate with the Trustee and take any and all action reasonably necessary to effectuate the purposes and intent of the Loan Agreement and the Indenture.

The Issuer shall not be required to do any act whatsoever or exercise any diligence whatsoever (other than to perform its limited obligations under the Loan Agreement and under the other Bond Documents) to mitigate any damages of the Borrower or any other person if any Event of Default shall occur under the Loan Agreement or under the Indenture or any other Bond Documents.

## **SUMMARY OF CERTAIN PROVISIONS OF THE COLLATERAL AGENCY AGREEMENT**

The following is a summary of certain provisions of the Collateral Agency Agreement. This is not a complete recital of the terms of the Collateral Agency Agreement and reference should be made to it for its complete terms. Words and terms used in this summary shall have the same meaning as in the Collateral Agency Agreement, except where otherwise noted.

In addition to other words and terms defined in this Official Statement, as used in this summary the following words and terms shall have the following meanings, respectively, unless the context hereof otherwise clearly requires:

“Act of Bankruptcy” shall mean the occurrence of any event described herein in clauses (f) or (g) in “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Events of Default (Section 9.01)”.

“Additional Parity Debt” shall mean Indebtedness that is (i) incurred after the date of issue of the Series 2011 Bonds, (ii) permitted under both the Loan Agreement pursuant to provisions described under “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Additional Indebtedness (Section 8.11)” herein, and (iii) evidenced or secured by any Additional Parity Debt Agreement.

“Additional Parity Debt Agreement” shall mean each document, instrument or agreement which is designated an “Additional Parity Debt Agreement” in accordance with the Collateral Agency Agreement as described in “SUMMARY OF CERTAIN PROVISIONS OF THE COLLATERAL AGENCY AGREEMENT – Additional Parity Obligees (Section 2.3)” herein.

“Additional Parity Debt Obligations” shall mean all of the obligations of the Borrower under the Additional Parity Debt Agreements, including, without limitation, all obligations of the Borrower to make payments thereunder when due and payable and to timely perform, observe and comply with all of the terms, covenants, conditions, stipulations and agreements, express or implied, which the Borrower is required thereunder to perform, observe or comply with.

“Additional Parity Obligee” shall mean the holder of any particular Additional Parity Debt (or a trustee, agent or other representative for such holder).

“Cash Equivalent Investments” shall mean any of the following, to the extent acquired for investment and not with a view to achieving trading profits: (a) obligations fully backed by the full faith and credit of the United States of America maturing not in excess of six months from the date of acquisition, (b) commercial paper maturing not in excess of nine months from the date of acquisition and rated “P-1” by Moody’s or “A-1” by S&P on the date of acquisition, and (c) the following obligations of any domestic commercial bank, including any affiliate of the Indenture Trustee or the Collateral Agent, having capital and surplus in excess of \$500,000,000, which has, or the holding company of which has, a commercial paper rating meeting the requirements specified in clause (b) above: (i) time or demand deposits, certificates of deposit (including those placed by a third party pursuant to an agreement between the Borrower and the Collateral Agent) and bankers’ acceptances maturing not in excess of nine months from the date of acquisition, or (ii) repurchase obligations with a term of not more than seven days for underlying securities of the type referred to in clause (a) above, and (d) any money market mutual fund, including, without limitation, any mutual fund maintained by the Collateral Agent (including any proprietary mutual fund of the Collateral Agent or any affiliate of the Collateral Agent for which the Collateral Agent or an affiliate of the Collateral Agent serves as investment advisor or provides other services to such mutual fund and receives reasonable compensation therefor).

“Collateral Agent” shall mean Manufacturers and Traders Trust Company, as agent for the Secured Parties, together with its successors and assigns.

“Collateral Agent Obligations” shall mean all obligations from time to time of the Borrower to the Collateral Agent in its capacity as such (whether or not referred to in the Collateral Agency Agreement or in any Shared Security Document as constituting Collateral Agent Obligations), in each case whether such obligations are direct or indirect, otherwise secured or unsecured, joint or several, absolute or contingent, due or to become due, whether for payment or performance, now existing or hereafter arising (specifically including but not limited to obligations arising or accruing after the commencement of any bankruptcy, insolvency or similar proceedings with respect to the Borrower, or which would have arisen or accrued but for the commencement of such proceeding, even if the claim for such obligation is not allowed in such proceeding under applicable law).

“Directing Party” shall mean any Parity Obligees, or group of Parity Obligees acting together, holding at such time over fifty percent (50%) in amount of the Parity Obligations outstanding at such time. The Collateral Agent shall, in all instances, if requested to do so by any Directing Party holding Parity Obligations with respect to which an Event of Default has occurred and is continuing, proceed to take all appropriate action to exercise remedies, collect the Shared Collateral and make distributions in accordance with the Collateral Agency Agreement.

“Event of Default” shall mean any event of default under and as defined in any Secured Party Document.

“Indenture Trustee” shall mean Manufacturers and Traders Trust Company in its capacity as the trustee under the 2011 Indenture, together with its successors and assigns.

“Indebtedness” shall have the meaning given to that term in the Indenture.

“Lien” shall mean any mortgage, deed of trust, pledge, lien, security interest, charge or other encumbrance or security arrangement of any nature whatsoever, including but not limited to any conditional sale or title retention arrangement, and any assignment, deposit arrangement or lease intended as, or having the effect of, security.

“Obligations” shall mean all Parity Obligations and all Collateral Agent Obligations.

“Office” of the Collateral Agent shall mean its office located at 25 South Charles Street, Baltimore, MD 21201 or at such other domestic office or offices of the Collateral Agent as may be designated in writing from time to time by the Collateral Agent to the Borrower and the Parity Obligees.

“Parity Obligations” shall mean the Borrower’s obligations with respect to the Series 2011 Bonds, the Borrower’s obligations with respect to the Series 2019 Bonds and Additional Parity Debt Obligations. Whenever for the purposes of determining the “Directing Party” under the Collateral Agency Agreement it is necessary to determine the amount of Parity Obligations owing to any Secured Party at any particular time, (a) such amount shall be the amount of principal, accrued interest and other accrued payment obligations (including without limitation any reimbursement obligations owing in respect of payments made under a letter of credit) at the time owing by the Borrower to such Secured Party; (b) in the case of any Parity Obligations in the form of contingent reimbursement obligations in respect of an undrawn irrevocable letter of credit or similar irrevocable commitment or guaranty issued by the relevant Parity Obligor for the account of the Borrower, the amount of Parity Obligations with respect thereto shall be deemed to include the amount of all such contingent reimbursement obligations that will become absolute upon any payment under such letter of credit, commitment or guaranty; (c) where one Parity Obligor (the “Guarantor Parity Obligor”) has issued an irrevocable letter of credit, irrevocable commitment, guaranty or other similar assurance of payment to or for the benefit of another Parity Obligor (the “Guaranteed Parity Obligor”) to secure the payment of all or a portion of any Parity Obligations owing to the Guaranteed Parity Obligor (the “Guaranteed Parity Obligations”), that portion of the Guaranteed Parity Obligations covered by such letter of credit, commitment, guaranty or other assurance of payment shall not be counted; and (d) in the case of any Parity Obligations in the form of interest rate swap agreements or similar derivatives or hedging agreements between the Borrower and another counterparty, the amount of Parity Obligations with respect thereto on any particular date shall be the greater of (i) \$0.00 and (ii) the amount of the net accrued payment obligations (including any termination payment due upon any early termination of such agreement) at the time owing by the Borrower to such Secured Party.

“Parity Obligees” shall mean the Issuer, the Indenture Trustee, the Trustee and each Additional Parity Obligor.

“Permitted Liens” shall mean:

(a) any Lien arising by reason of any good faith deposit with the Borrower in connection with any lease of real estate, bid or contract (other than any contract for the payment of money), and deposit by the Borrower to secure any public or statutory obligation, or to secure, or in lieu of, any surety, stay or appeal bond, and any deposit as security for the payment of taxes or assessments or other similar charges.

(b) any Lien arising by reason of any deposit 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 Borrower to maintain self-insurance or to participate in any funds established to cover any insurance risk or in connection with workers’ compensation, unemployment insurance, any



pension or profit sharing plan or other social security, or to share in the privileges or benefits required for the participation of the Borrower in such arrangements.

(c) any judgment lien against the Borrower that is being diligently contested in good faith and by appropriate proceedings and is fully bonded or covered by insurance and the execution thereon stayed, and any judgment lien against the Borrower that does not exceed Five Hundred Thousand Dollars (\$500,000) regardless of whether or not such lien is being contested, is bonded or is covered by insurance or the execution is stayed.

(d) any right reserved to or vested in any governmental authority by the terms of any right, power, franchise, grant, license, permit or provision of law affecting any property of the Borrower, any Lien on any property of the Borrower for taxes, assessments, levies, fees, water and sewer rents or charges and other governmental and similar charges (i) that is not due and payable or that is not delinquent or (ii) the amount or validity of which is being contested in good faith and is fully bonded against.

(e) any Lien granted for the benefit of all Parity Obligees or permitted or created under the Collateral Agency Agreement.

(f) any Lien with respect to moneys deposited with the Borrower as security for, or as prepayment of, tuition and other costs.

(g) any Lien on property received by the Borrower through any gift, grant or bequest constituting a restriction imposed by the donor, grantor or testator on such gift, grant or bequest or the income therefrom.

“Property” shall have the meaning given to that term in the 2011 Indenture.

“Receipts” shall mean all receipts, revenue, rentals, income, insurance proceeds, condemnation awards and other moneys received by or on behalf of the Borrower, including, (without limitation) revenues derived from (A) the ownership, operation, or leasing of any portion of the Property and all rights to receive the same, whether in the form of accounts, general intangibles, or other rights, and the proceeds of such accounts, general intangibles or other rights, whether now existing or hereafter coming into existence or whether now owned or held or hereafter acquired by the Borrower, and (B) gifts, grants, bequests, donations, and contributions heretofore or hereafter made to the Borrower that are legally available to meet any of the obligations of the Borrower incurred in the financing, operation, maintenance or repair of any portion of the Property.

“Secured Parties” shall mean the Collateral Agent and the Parity Obligees.

“Secured Party Documents” shall mean the 2011 Loan Agreement, the 2011 Indenture, and the Loan Agreement, each Additional Parity Debt Agreement and each Shared Security Document.

“Shared Collateral” shall mean (i) the Receipts and (ii) any other collateral from time to time subject to or intended or purported to be subject to a Lien in favor of the Collateral Agent under the Shared Security Documents.

“Shared Security Documents” shall mean (i) the Collateral Agency Agreement and (ii) any other agreements or instruments from time to time granting or purporting to grant to the Collateral Agent a Lien in any property for the benefit of the Parity Obligees to secure the Parity Obligations, or constituting a guaranty for the Parity Obligations, or subordinating any obligation to the Parity Obligations, in each case as described below under “SUMMARY OF CERTAIN PROVISIONS OF THE COLLATERAL AGENCY AGREEMENT – Additional Shared Security Documents (Section 1.3),” or otherwise.

#### **Additional Shared Security Documents (Section 1.3)**

The Borrower, or another Person, may from time to time execute and deliver agreements, instruments or documents in form and substance satisfactory to the Collateral Agent from time to time granting or purporting to grant to the Collateral Agent a Lien in any property for the benefit of the Parity Obligees to secure the Parity Obligations, or constituting a guaranty for the Parity Obligations, or subordinating any obligation to the Parity Obligations. Each such agreement, instrument or document shall constitute a “Shared Security Document” for purposes of the Collateral Agency Agreement. In connection with the execution and delivery of any Shared Security Documents, the Borrower shall provide, or cause to be provided, to the Indenture Trustee, evidence satisfactory to the Indenture Trustee (which may include, without limitation, opinions of counsel) that the Liens created thereby are valid and perfected.

#### **Security Interest in Receipts (Section 1.4)**

As security for the Parity Obligations, the Borrower granted in the Collateral Agency Agreement to the Collateral Agent a lien and claim on and a security interest in all of the Receipts, subject to no Liens other than Permitted Liens. Without limiting the generality of the foregoing, this lien, claim and security interest shall continuously apply for the entire term of the Collateral Agency Agreement to all rights to receive Receipts.

In order to secure further the punctual payment of the Parity Obligations and without in any way limiting any other provision of the Collateral Agency Agreement, the Borrower agreed in the Collateral Agency Agreement that, upon the written request of the Collateral Agent following the occurrence of any Event of Default, and only for so long as such Event of Default continues, any Receipts that are then held by the Borrower shall immediately, and any Receipts thereafter received shall upon their receipt, be transferred to the Collateral Agent, deposited in the Shared Collateral Account and applied pursuant to the Collateral Agency Agreement. See “SECURITY FOR THE SERIES 2019 BONDS – Collateral Agency and Security Agreement” of this Official Statement. Nothing contained in the Collateral Agency Agreement shall be construed as precluding the Borrower from applying its Receipts to its own uses so long as no Event of Default shall have occurred and be continuing.

The Borrower represented and warranted in the Collateral Agency Agreement to the other parties thereto that there exist no Liens on or with respect to the Receipts (other than Permitted Liens) and the Borrower has made no contract or agreement of any kind, the performance of which by the other party thereto would give rise to any Liens on the Receipts (other than Permitted Liens).

Except for Permitted Liens, the Borrower shall neither create any Lien nor allow any Lien to remain against the Receipts or any portion thereof.

The net proceeds, if any, of any disposition of property described under “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Events of Default and Remedies – Events of Default (Sections 7.01 and 7.02)” herein shall constitute Receipts.

Nothing in the Collateral Agency Agreement shall constitute an agreement that any Permitted Lien is entitled to parity with or priority over the Lien created by the Collateral Agency Agreement.

#### **Appointment (Section 2.1)**

Each of the Parity Obligees irrevocably appointed in the Collateral Agency Agreement Manufacturers and Traders Trust Company to act as Collateral Agent for each Secured Party thereunder and the other Shared Security Documents, and irrevocably authorized the Collateral Agent to take such action on behalf of each Secured Party under the provisions of the Collateral Agency Agreement and the other Shared Security Documents, and to exercise such powers and to perform such duties, as are specifically delegated to or required of the Collateral Agent by the terms thereof, together with such powers as are reasonably incidental thereto.

#### **Deposits; Application of Monies (Sections 4.3, 4.4 and 4.6)**

After the occurrence of an Event of Default, the Collateral Agent shall deposit in the Shared Collateral Account all moneys or proceeds received by it from any of the Shared Collateral or the enforcement of or realization upon any of the Shared Collateral and all other funds required to be so deposited under any Shared Security Document. No other funds shall be deposited in the Shared Collateral Account or commingled with funds in the Shared Collateral Account.

Except as otherwise provided in the Collateral Agency Agreement, moneys held in the Shared Collateral Account will be distributed to each Parity Obligee in an amount equal to all amounts due and payable to such Parity Obligee; provided, that if such moneys to be distributed by the Collateral Agent shall be insufficient to pay in full the amounts owing to each Parity Obligee, then such distribution shall be made ratably (without priority of any one over any other) to each Parity Obligee in proportion to the respective amounts so owing to each Parity Obligee on such distribution date.

Each Parity Obligee has agreed in the Collateral Agency Agreement to apply monies distributed under the Collateral Agency Agreement to satisfaction of the corresponding Parity Obligation described therein.

#### **Certain Intercreditor Matters (Section 2.5)**

The provisions of the Collateral Agency Agreement apply solely to priorities of distributions resulting from realization on the Shared Security Documents, and not to the priorities of the Parity Obligations. Nothing contained

in the Collateral Agency Agreement or in any other Shared Security Document is intended to effect a subordination of any Obligation to any other Obligation.

Solely with respect to any Liens created by Shared Security Documents other than the Collateral Agency Agreement, the priority of distribution specified in the Collateral Agency Agreement is based upon the assumptions that (i) the Liens in the Shared Collateral in favor of the Collateral Agent on behalf of each of the Secured Parties will be equally valid, perfected and nonavoidable as to each such Secured Party, and (ii) the Liens in the Shared Collateral in favor of the Collateral Agent on behalf of each of the Secured Parties will be deemed of equal priority as against all Persons other than Secured Parties in their capacities as such. If and to the extent any such assumption proves to be incorrect as to a particular Secured Party or particular set of Secured Parties, any resulting loss shall be borne solely by such Secured Party or set of Secured Parties, and the distributions referred to in the Collateral Agency Agreement shall be adjusted accordingly.

The Secured Parties have agreed in the Collateral Agency Agreement that, upon any realization on the Shared Collateral pursuant to the Shared Security Documents, the Secured Parties shall share in the proceeds of such realization in the manner provided in the Collateral Agency Agreement, and if any Secured Party shall realize any funds on the Shared Collateral otherwise than pursuant to the Collateral Agency Agreement, such Secured Party shall remit the same to the Collateral Agent, which shall apply the same as provided therein.

Any payment by the Borrower to a Parity Oblige on account of any of the Parity Obligations made prior to the date the Collateral Agent commences enforcement of the Collateral Agency Agreement shall be free of the Lien of the Shared Security Documents.

#### **Investment (Section 4.2)**

The Collateral Agent shall invest and reinvest moneys on deposit in the Shared Collateral Account in Cash Equivalent Investments as shall be specified in writing by a Directing Party from time to time in its own name as agent under the Collateral Agency Agreement, and all such investments and the interest and income received thereon and the net proceeds on the sale or redemption thereof shall be held in the Shared Collateral Account. The Collateral Agent may liquidate investments prior to maturity to make a distribution pursuant to the Collateral Agency Agreement. The Collateral Agent shall not have any liability for any loss sustained as a result of any investment made pursuant to the instructions of a Directing Party or as a result of any liquidation of any investment prior to its maturity or for the failure of a Directing Party to give the Collateral Agent instructions to invest or reinvest the Shared Collateral Account or any earnings thereon.

#### **Certain Rights After Event of Default (Section 3.3)**

The Borrower irrevocably constituted and appointed in the Collateral Agency Agreement the Collateral Agent and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full power and authority in the name of the Borrower or otherwise, from time to time in the Collateral Agent's discretion or upon direction by a Directing Party, so long as any Event of Default has occurred and is continuing, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to carry out the terms of the Collateral Agency Agreement or any other Shared Security Document including, without limitation, without notice to or further assent by the Borrower, to do the following:

(i) to ask for, demand, sue for, collect, receive and give acquittance for any and all moneys due or to become due upon, or in connection with, the Shared Collateral;

(ii) to receive, take, endorse, assign and deliver any and all checks, notes, drafts, acceptances, documents and other negotiable and non-negotiable instruments taken or received by the Collateral Agent as, or in connection with, the Shared Collateral;

(iii) to commence, prosecute, defend, settle, compromise or adjust any claim, suit, action or proceeding with respect to, or in connection with, the Shared Collateral;

(iv) to sell, transfer, assign or otherwise deal in or with the Shared Collateral or any part thereof as fully and effectively as if the Collateral Agent were the absolute owner thereof;

(v) to do, at its option and at the expense and for the account of the Borrower, at any time or from time to time, all acts and things which the Collateral Agent deems necessary to protect or preserve the Shared Collateral and to realize upon the Shared Collateral; and

(vi) to proceed under the Maryland Uniform Commercial Code as in effect from time to time (the “Maryland UCC”) as to any property subject to a Lien in favor of the Collateral Agent and in conjunction therewith to exercise all of the rights, remedies and powers of a secured party under the Maryland UCC.

#### **Right to Initiate Judicial Proceedings (Section 3.4)**

If an Event of Default has occurred and is continuing, the Collateral Agent (a) shall have the right and power to institute and maintain such suits and proceedings as it may deem appropriate to protect and enforce the rights vested in it by the Collateral Agency Agreement and each other Shared Security Document and (b) may either after entry, or without entry, proceed by suit or suits at law or in equity to enforce such rights and to foreclose upon the Shared Collateral and to sell all or, from time to time, any of the Shared Collateral under the judgment or decree of a court of competent jurisdiction.

#### **Right to Appoint a Receiver (Section 3.5)**

If an Event of Default has occurred and is continuing, upon the filing of a bill in equity or other commencement of judicial proceedings or other applicable action set forth in any Shared Security Document to enforce the rights of the Collateral Agent under the Collateral Agency Agreement or any other Shared Security Document, the Collateral Agent shall, to the extent permitted by law, without notice to the Borrower or any party claiming through the Borrower, without regard to the solvency or insolvency at the time of the Borrower or any other Person then liable for the payment of any of the Parity Obligations, without regard to the then-value of the Shared Collateral, and without requiring any bond from any complainant in such proceedings, be entitled as a matter of right to the appointment of a receiver or receivers (who may be the Collateral Agent) of the Shared Collateral, or any part thereof, and of the rents, issues, tolls, profits, royalties, revenues and other income thereof, pending such proceedings, with such powers as the court making such appointment or as the applicable Shared Security Document, as the case may be, shall confer, and to the entry of an order directing that the rents, issues, tolls, profits, royalties, revenues and other income of the property constituting the whole or any part of the Shared Collateral be segregated, sequestered and impounded for the benefit of the Collateral Agent, and the Borrower irrevocably consents to the appointments of such receiver or receivers and to the entry of such order; provided, that notwithstanding the appointment of any receiver, the Collateral Agent shall be entitled to retain possession and control of all cash held by or deposited with it in its capacity as Collateral Agent pursuant to the Collateral Agency Agreement or any other Shared Security Document.

#### **Certain Waivers (Section 3.7)**

The Borrower agreed in the Collateral Agency Agreement that it will not at any time in any manner whatsoever claim or take the benefit or advantage of, any appraisal, valuation, stay, extension, moratorium, turnover or redemption law, or any law permitting it to direct the order in which the Shared Collateral shall be sold, now or at any time hereafter in force, which may delay, prevent or otherwise affect the performance or enforcement of the Collateral Agency Agreement or any other Shared Security Document. The Borrower also waived and released all rights to demand or to have any marshalling of the Shared Collateral upon any sale, whether made under any power of sale granted in the Collateral Agency Agreement or in any other Shared Security Document or pursuant to judicial proceedings or upon any foreclosure or any enforcement of the Collateral Agency Agreement or any other Shared Security Document.

#### **Limitation on Collateral Agent’s Duty in Respect of Shared Collateral (Section 3.8)**

Beyond its duties expressly provided in any Shared Security Document and its duty to account to the Borrower or Secured Parties for moneys and other property received by it under any Shared Security Document, the Collateral Agent shall not have any duty to the Borrower as to any Shared Collateral in its possession or control or in the possession or control of any of its agents or nominees, or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto so long as the Collateral Agent acts in a commercially reasonable manner.

#### **Exercise of Powers (Section 2.2)**

The Collateral Agent shall take any action of the type specified in the Collateral Agency Agreement or in any other Shared Security Documents as being within the Collateral Agent’s rights, powers or discretion in accordance with written directions from a Directing Party (or, to the extent the Collateral Agency Agreement or such Shared Security Document specifically requires the consent or direction of some other Person or set of Persons, then instead in accordance with the directions of such other Person or set of Persons). In the absence of any such

directions, the Collateral Agent shall have the authority (but under no circumstances shall be obligated), in its sole discretion, to take such action, to the extent not inconsistent with written directions by a Directing Party, unless the Collateral Agency Agreement or such Shared Security Document specifically requires the consent or direction of a Directing Party (or some other Person or set of Persons), in which case the Collateral Agent shall not take such action absent such direction or consent. Any action or inaction pursuant to such direction, discretion or consent shall be binding on all of the Secured Parties. The Collateral Agent shall not have any liability to any Person as a result of (a) the Collateral Agent acting or refraining from acting in accordance with the directions of a Directing Party (or other applicable Person or set of Persons), (b) the Collateral Agent refraining from acting in the absence of written instructions to act from a Directing Party (or other applicable Person or set of Persons), whether or not the Collateral Agent has discretionary power to take such action, or (c) the Collateral Agent taking discretionary action if it is authorized to take under this paragraph (subject, in the case of this clause (c) to the provisions of the Collateral Agency Agreement).

### **Additional Parity Obligees (Section 2.3)**

The holder (or trustee, agent or other representative of such holder) of Additional Parity Debt shall constitute an Additional Parity Obligee and shall be entitled to the benefit of the Collateral Agency Agreement, if and only if: (a) such Person executes a Joinder Supplement in substantially the form attached to the Collateral Agency Agreement, pursuant to which such Person shall agree to become a party to the Collateral Agency Agreement and bound thereby as an “Additional Parity Obligee,” and pursuant to which a particular Additional Parity Debt Agreement is designated as such for the purposes of the Collateral Agency Agreement, (b) the Borrower consents thereto, and (c) the Collateral Agent acknowledges receipt thereof.

### **Amendments to Secured Party Documents (Section 2.4)**

The provisions of the Collateral Agency Agreement shall remain in full force and effect in accordance with its terms regardless of any amendment, modification or supplement to any Secured Party Document and, except to the extent otherwise expressly required therein, no consent of any Parity Obligee shall be required in connection with any amendment of any Secured Party Document to which such Parity Obligee is not a party. Without limitation of the foregoing, the Collateral Agency Agreement shall apply in accordance with its terms notwithstanding any increase, decrease, addition or change in the amount, nature, type or purpose of the Parity Obligations or any execution or delivery of any Secured Party Document from time to time.

### **General Nature of Duties; Reliance, etc., Notice of Events of Default (Sections 5.1, 5.6, and 5.18)**

The Collateral Agent shall have no duties or responsibilities except those expressly set forth in the Collateral Agency Agreement and the other Shared Security Documents, and no implied duties or responsibilities on the part of the Collateral Agent shall be read into the Collateral Agency Agreement or any other Shared Security Document or shall otherwise exist. The duties and responsibilities of the Collateral Agent shall be mechanical and administrative in nature. The Collateral Agent is and shall be solely the agent of the Secured Parties. The Collateral Agent does not assume, and shall not at any time be deemed to have, any relationship of agency or trust with or for, or any other duty or responsibility to, the Borrower or any Person other than the Secured Parties. The Collateral Agent shall be under no obligation to take any action under the Collateral Agency Agreement or under any Shared Security Document if the Collateral Agent believes in good faith that taking such actions may conflict with any law or any provision of the Collateral Agency Agreement or any Shared Security Document, or may require the Collateral Agent to qualify to do business in any jurisdiction where it is not then qualified.

Whenever in the administration of duties under the Collateral Agency Agreement or the other Shared Security Documents the Collateral Agent shall deem it necessary or desirable that a matter be proved or established with respect to the Borrower or any other Person in connection with the taking, suffering or omitting of any action thereunder by the Collateral Agent, such matter may be provided or established by a certificate of the Borrower or other Person delivered to the Collateral Agent, and the Collateral Agent may conclusively rely thereon. The Collateral Agent shall be entitled to rely (and shall be free from all liability for so relying) upon any notice, consent, certificate, affidavit, letter, facsimile transmission, electronic mail transmission, statement, paper, document, telephone conversation or other communication believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons (whether or not made in the manner specified in the applicable Shared Security Documents).

The Collateral Agent shall not be required to take notice or be deemed to have notice of any Event of Default, unless an officer, agent or employee of the Collateral Agent responsible for matters relating to its duties as

Collateral Agent under the Collateral Agency Agreement shall have actual knowledge of such Event of Default, or the Collateral Agent shall have been specifically notified in writing of such Event of Default. The Collateral Agent shall notify the Parity Obligees of the occurrence of an Event of Default within thirty days of the Collateral Agent's having notice thereof pursuant to the Collateral Agency Agreement.

#### **Collateral Agent in Individual Capacity (Section 5.8)**

The Collateral Agent, in its individual capacity or in some other fiduciary capacity, may be a Parity Obligee under the Collateral Agency Agreement, and in such event the Collateral Agent, in such other capacity, shall have the same rights and powers as any other Parity Obligee and may exercise the same as though it were not the Collateral Agent. The Collateral Agent and its affiliates may, without liability to account, make loans to, accept deposits from, act as trustee under indentures of, and generally engage in any kind of banking or trust business with, the Borrower and its trustees, subsidiaries and affiliates as though it were not acting as Collateral Agent under the Collateral Agency Agreement.

#### **Successor Collateral Agent (Section 5.15)**

The Collateral Agent may resign at any time by giving at least ten days' prior written notice thereof to each other Secured Party and the Borrower, and may be removed without cause at any time by a Directing Party by giving at least ten days' prior written notice thereof to each other Secured Party, the Borrower and the Collateral Agent. Such resignation or removal shall be effective on the date specified in such notice and, on such date, the resigning or removed Collateral Agent shall be automatically discharged from its duties under the Collateral Agency Agreement and the other Shared Security Documents without requirement of any further action by such resigning or removed Collateral Agent, but notwithstanding the foregoing no such resignation or removal shall be effective unless and until a successor Collateral Agent has been appointed in accordance with the Collateral Agency Agreement. Upon any such resignation or removal, a Directing Party shall have the right to appoint a successor Collateral Agent, subject to the approval of the Borrower as to the identity of such successor Collateral Agent (which approval shall not be unreasonably withheld) unless such successor Collateral Agent is one of the Secured Parties and unless an Event of Default shall have occurred and be continuing. If no successor Collateral Agent shall have been appointed and shall have accepted such appointment within ten days after such notice of resignation or removal, then the resigning or removed Collateral Agent, at the expense of and on behalf of the Secured Parties (other than the Issuer), may, but shall not be obligated to, appoint a successor Collateral Agent. If no successor Collateral Agent shall be appointed and shall have accepted such appointment within thirty days after such notice of resignation or removal, any Secured Party may apply to any court of competent jurisdiction to appoint a successor Collateral Agent until such time, if any, as a successor Collateral Agent shall have been appointed as provided in the Collateral Agency Agreement. Any successor so appointed by such court shall immediately and without further act be superseded by any successor Collateral Agent appointed by a Directing Party.

Any successor Collateral Agent shall be a commercial bank or trust company organized under the laws of the United States of America or any state thereof and having a combined capital and surplus of at least \$500,000,000.

**APPENDIX D**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

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**PROPOSED FORM OF OPINION OF BOND COUNSEL**

[Closing Date]

Maryland Industrial Development  
Financing Authority  
Baltimore, Maryland

\$ \_\_\_\_\_  
**Maryland Industrial Development Financing Authority  
Economic Development Revenue Bonds  
(McDonogh School Facility), Series 2019**

Ladies and Gentlemen:

We have acted as bond counsel to the Maryland Industrial Development Financing Authority, a body politic and corporate and an instrumentality of the State of Maryland (the “Issuer”), in connection with the issuance by the Issuer of its \$ \_\_\_\_\_ Maryland Industrial Development Financing Authority Economic Development Revenue Bonds (McDonogh School Facility), Series 2019 (the “Series 2019 Bonds”).

As bond counsel, we have examined:

- (a) the Maryland Industrial Development Financing Authority Act, as amended (the “MIDFA Act”);
- (b) the Maryland Economic Development Revenue Bond Act, as amended (the “Revenue Bond Act” and, collectively with the MIDFA Act, the “Acts”);
- (c) the Trust Indenture dated as of February 1, 2019 (the “Indenture”), by and between the Issuer and Manufacturers and Traders Trust Company, as trustee (the “Trustee”);
- (d) the Loan Agreement dated as of February 1, 2019 (the “Loan Agreement”), by and between the Issuer and McDonogh School, Incorporated (the “Borrower”);
- (e) the Series 2019 Bonds;
- (f) the Issuer’s General Certificate of even date herewith;

- (g) the Issuer's Certificate as to Arbitrage of even date herewith (the "Issuer's Certificate as to Arbitrage"); and
- (h) the Borrower's Tax Certificate and Compliance Agreement of even date herewith by the Borrower (the "Borrower's Tax Certificate").

The scope of our engagement as bond counsel extends solely to an examination of the facts and law incident to rendering the opinions specifically expressed herein. This opinion is dated as of the date of issuance and delivery of the Series 2019 Bonds.

Unless the context clearly indicates otherwise, each capitalized term used in this opinion shall have the same meaning as set forth in the Series 2019 Bonds and in the Indenture.

We refer you to the Series 2019 Bonds and to the Indenture for a description of the purposes for which the Series 2019 Bonds are issued, the security for the Series 2019 Bonds, the manner in which and times at which the principal of, premium (if any) and interest on, the Series 2019 Bonds are payable, the interest rate or rates payable on the Series 2019 Bonds, the provisions under which the Series 2019 Bonds may be redeemed prior to their stated maturity and all other details of the Series 2019 Bonds.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon representations of the Borrower and the Issuer contained in the Borrower's Tax Certificate and the Bond Documents, the certified proceedings of the Issuer, certifications by public officials, and certifications by the officers, employees and representatives of the Borrower (including, without limitation, certifications as to the use of proceeds of the Series 2019 Bonds, use of the 2019 Facility, status of the Borrower as an organization described in Section 501(c)(3) of the Code and other information that is material to paragraphs 7 and 8 below).

We do not express any opinion herein concerning any law other than the law of the State of Maryland and the federal law of the United States of America.

We have not examined, and express no opinion as to, the existence of or title to real or personal property, and, except as expressly stated herein, we express no opinion as to the creation, validity or priority of any lien upon, assignment of, pledge of or security interest in any real or personal property. It is the responsibility of the Trustee to continue to maintain the perfection, priority or validity of any liens, assignments, security interests or pledges created as security for the Series 2019 Bonds.

We have not reviewed or examined any financial information or other information with respect to the Borrower or the 2019 Facility or any offering material relating to the Borrower or the 2019 Facility, and we express no opinion relating thereto.

Reference is made to the opinion of even date herewith of DLA Piper, LLP (US), counsel to the Borrower, with respect to certain matters pertaining to the Borrower and to the Bond Documents executed and delivered by the Borrower. We have relied upon such opinion with

respect to the status of the Borrower as an organization described in Section 501(c)(3) of the Code. We express no opinion as to any of the matters set forth in such opinion.

In addition, we refer you to the opinion of even date herewith of Barbara Curnin Kountz, Assistant Attorney General, counsel to the Issuer, with respect to, among other matters: (a) the valid creation and existence of the Issuer; (b) the proper and correct adoption of the Resolution and the proper and correct execution and delivery of the Executive Order by the Chairman; (c) the authorization, execution and delivery by the Issuer of the Series 2019 Bonds, the Indenture and the Loan Agreement, and the validity and enforceability thereof against the Issuer; and (d) the absence of any litigation or conflicting agreements affecting the issuance and sale of the Series 2019 Bonds. We have relied exclusively upon such opinion with respect to the matters set forth therein, other than the validity and enforceability of the Series 2019 Bonds against the Issuer.

This opinion does not constitute or imply a recommendation of the market or financial value of the Series 2019 Bonds or an assessment of the strength or appropriateness of the covenants by any of the parties to any of the Bond Documents, the possibility of default (other than on account of the invalidity of the Series 2019 Bonds), the eligibility or suitability of the Series 2019 Bonds as an investment, or any other legal or financial aspect of the Series 2019 Bonds not expressly addressed herein.

We have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents.

Based upon, and subject to, the foregoing, and on the basis of existing law, it is our opinion, as of the date hereof, that:

1. The Issuer is a validly created and existing body politic and corporate and an instrumentality of the State with full power and authority under the Act, to issue and sell the Series 2019 Bonds and to enter into and perform its obligations under the Indenture, the Loan Agreement and the Series 2019 Bonds.

2. The Series 2019 Bonds (a) have been duly and properly authorized, executed and delivered by the Issuer, (b) constitute the valid and legally binding limited obligations of the Issuer, (c) are enforceable against the Issuer in accordance with their terms, and (d) are entitled to the benefit and security of the Indenture to the extent provided therein.

3. The Indenture has been duly and properly authorized, executed and delivered by the Issuer, and, assuming the enforceability thereof against the Trustee, constitutes the valid and legally binding obligation of the Issuer and is enforceable against the Issuer in accordance with its terms. The Indenture contains provisions permitting the issuance of Additional Bonds. The Series 2019 Bonds and any Additional Bonds (collectively, the "Bonds") issued in accordance with the Indenture are equally and ratably secured by the Indenture to the extent provided therein.

4. The Loan Agreement has been duly and properly authorized, executed and delivered by the Issuer, and, assuming enforceability thereof against the Borrower, constitutes the valid and legally binding obligation of the Issuer and is enforceable against the Issuer in accordance with its terms.

5. Pursuant to the Indenture, the Issuer has pledged and assigned the Trust Estate to the Trustee for the benefit of the Holders of the Bonds (subject to the Reserved Rights of the Issuer) to the extent provided therein. Pursuant to the Revenue Bond Act, the lien of the pledge of the Revenues by the Issuer to the Trustee is valid and binding against a person with a claim against the Issuer, whether or not the person has notice of the lien.

6. The Bonds, the interest thereon and the redemption price thereof are limited obligations of the Issuer, payable solely from the Revenues or other money made available to the Issuer for such purpose. The Bonds, the interest thereon, and the redemption price thereof are not debts or charges against the general credit or taxing powers of the State, the Department, the Issuer or any other public body within the meaning of any constitutional or charter provision or statutory limitation and may not give rise to any pecuniary liability of the State, the Department, the Issuer or any other public body. The Bonds are not a debt to which the faith and credit of the State, the Department, the Issuer or any other public body is pledged. The Issuer has no taxing power.

7. The principal of and interest on the Series 2019 Bonds, the transfer of the Series 2019 Bonds, and any income derived from the Series 2019 Bonds, including profits made in their sale or transfer, are exempt from state and local taxes in the State, but no opinion is expressed as to such exemption from estate or inheritance taxes, or to any other taxes not levied directly on the principal of and interest on the Series 2019 Bonds, their transfer or income derived therefrom.

8. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2019 Bonds is excludable from gross income for federal income tax purposes. Interest earned on the Series 2019 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Interest earned on the Series 2019 Bonds may be subject to the branch profits tax imposed on certain foreign corporations engaged in a trade or business in the United States of America.

In rendering the opinions expressed in this paragraph 8, we have assumed continuing compliance with the covenants and agreements set forth in the Borrower's Tax Certificate, which covenants and agreements have been designed to meet the requirements (to the extent they are applicable to the Series 2019 Bonds) of Section 103 and Sections 141 through 150 of the Code, inclusive, and the regulations issued thereunder or applicable thereto. Interest on the Series 2019 Bonds may be includible in gross income for federal income tax purposes as of the date of initial issuance of the Series 2019 Bonds as a result of events or circumstances occurring after the issuance of the Series 2019 Bonds, including, without limitation, the following:

(a) the proceeds of the Series 2019 Bonds are used or spent other than as contemplated in the Issuer's Certificate as to Arbitrage of even date herewith executed and delivered in connection with the Series 2019 Bonds and the Borrower's Tax Certificate or in some other manner that would cause the Series 2019 Bonds to be "arbitrage bonds" under Section 148 of the Code;

(b) any person takes action, permits action to be taken or fails to take action, that causes the requirement for rebate to the United States, as described in the Borrower's Tax Certificate, to be violated with respect to the Series 2019 Bonds;

(c) the proceeds of the Series 2019 Bonds are not used or spent as certified by the Borrower in the Borrower's Tax Certificate so that the Series 2019 Bonds do not qualify as "qualified 501(c)(3) bonds" under Section 145 of the Code;

(d) any portion of the proceeds of the Series 2019 Bonds is used to provide any of the facilities described in Section 147(e) of the Code, as modified by Section 147(b)(2) of the Code;

(e) the 2019 Facility or any part thereof ceases to be owned by the Borrower or by another organization described in Section 501(c)(3) of the Code;

(f) the Borrower loses its status as an organization described in Section 501(c)(3) of the Code;

(g) more than 5% of the proceeds of the Series 2019 Bonds (including the proceeds of the Series 2019 Bonds used to finance issuance costs with respect to the issuance of the Series 2019 Bonds) is used for any activities which constitute unrelated trades or businesses determined by applying Section 513(a) of the Code; or

(h) more than 2% of the proceeds of the Series 2019 Bonds is used to finance issuance costs with respect to the issuance of the Series 2019 Bonds.

The Borrower has covenanted in the Borrower's Tax Certificate not to violate any of the requirements described in paragraphs (a) through (h) above. We assume no responsibility for, and will not monitor compliance with, the covenants and agreements set forth in the Borrower's Tax Certificate. In the event of noncompliance with such covenants and agreements, available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent the interest on the Series 2019 Bonds from becoming includible in gross income for federal income tax purposes.

We draw your attention to the possibility that a purchaser of the Series 2019 Bonds may have to take interest on the Series 2019 Bonds into account for purposes of calculating the amount of social security benefits includible as gross income of such purchaser and a casualty insurance company must reduce its deduction for losses incurred by 15% with respect to interest received or accrued on tax-exempt obligations, which include the Series 2019 Bonds, and certain dividends on stock which were acquired after August 7, 1986. If an S corporation has subchapter C earnings and

profits and more than 25% of the gross profits of the S corporation are passive investment income, which includes interest on tax-exempt obligations such as the Series 2019 Bonds, a certain portion of such passive investment income may be subject to federal income taxation under Section 1375 of the Code. Finally, financial institutions are unable to deduct any portion of the interest costs of purchasing and carrying certain tax-exempt obligations acquired after August 7, 1986, including the Bonds.

Furthermore, we direct your attention to the section of the Official Statement relating to the Series 2019 Bonds entitled “Tax Matters” and specifically to the subsection thereof entitled “Tax Enforcement” with respect to a discussion of the Internal Revenue Service’s on-going program of auditing tax-exempt obligations.

The rights of any purchaser of the Series 2019 Bonds, the enforceability of the Series 2019 Bonds, the Indenture, the Loan Agreement and any other agreements or obligations referred to herein and therein and any remedies thereunder are subject to (i) the exercise of judicial discretion in accordance with general principles of equity (whether applied by a court of law or a court of equity), including judicial limitations on rights to specific performance; (ii) the valid exercise of the constitutional powers of the United States of America and of the sovereign police and taxing powers of state or other governmental units having jurisdiction; and (iii) bankruptcy, insolvency, reorganization, moratorium or other similar laws heretofore or hereafter in effect affecting creditors’ rights, to the extent constitutionally applicable. Enforceability of the provisions contained in the Loan Agreement pertaining to indemnification may also be limited by applicable securities laws and public policy. Without limiting the generality of the foregoing, under the Bankruptcy Reform Act of 1978, as amended from time to time, and more recently by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, provisions of the Series 2019 Bonds, the Indenture, the Loan Agreement and the other Bond Documents providing for acceleration of maturity in the event of insolvency or bankruptcy may be invalid, and the rights and remedies of acceleration and foreclosure, if any, under such circumstances may not be enforceable.

Very truly yours,

MILES & STOCKBRIDGE P.C.

By: \_\_\_\_\_  
Principal

## **APPENDIX E**

### **PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is dated as of February 1, 2019 by and between MCDONOGH SCHOOL, INCORPORATED (the “Borrower”) and MANUFACTURERS AND TRADERS TRUST COMPANY, as dissemination agent (the “Dissemination Agent”).

### **W I T N E S S E T H :**

**WHEREAS**, the Maryland Industrial Development Financing Authority (the “Issuer”) is issuing \$\_\_\_\_\_ aggregate principal amount of Maryland Industrial Development Financing Authority Economic Development Revenue Bonds (McDonogh School Facility), Series 2019 (the “Series 2019 Bonds”) pursuant to a Trust Indenture dated as of February 1, 2019 (the “Indenture”) between the Issuer and Manufacturers and Traders Trust Company, as Trustee; and

**WHEREAS**, the proceeds of the Series 2019 Bonds are being loaned to the Borrower by the Issuer pursuant to a Loan Agreement dated as of February 1, 2019 (the “Loan Agreement”); and

**WHEREAS**, Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”), provides that a Participating Underwriter (as defined in the Rule) shall not purchase or sell municipal securities in connection with an Offering (as defined in the Rule) unless the Participating Underwriter has reasonably determined that an issuer of municipal securities, or an obligated person for whom financial or operating data is presented in the final official statement, has undertaken, either individually or in combination with other issuers of such municipal securities or obligated persons, in a written agreement or contract for the benefit of holders of such securities, to provide, either directly or indirectly through an indenture trustee or a designated agent, certain specified financial information and operating data and notices of certain material events; and

**WHEREAS**, the Borrower is the only “obligated person” with respect to the Series 2019 Bonds for purposes of the Rule; and

**WHEREAS**, in order to induce George K. Baum & Company (the “Participating Underwriter”) to purchase the Series 2019 Bonds, the Borrower desires to undertake to provide the information and notices required by the Rule;

**NOW, THEREFORE**, in consideration of the premises, the parties hereto, intending to be legally bound hereby, agree as follows:

**Section 1. Definitions.** In addition to the terms defined in the above recitals, the following terms shall have the meanings specified below:

“Annual Financial Information” shall mean the annual financial information to be provided annually containing the information specified in Schedule 1 hereto, as such schedule may be amended as provided herein.

“Bond Counsel” means Miles & Stockbridge P.C., or any other law firm approved by the Issuer having a national reputation in the field of municipal law, whose legal opinions are generally accepted by purchasers of municipal bonds.

“EMMA” shall mean the Electronic Municipal Market Access System of the MSRB as provided at <http://www.emma.msrb.org>, or any similar system that is acceptable to or as may be specified by the Securities and Exchange Commission from time to time. A current list of such systems may be obtained from the Securities and Exchange Commission at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Fiscal Year” shall mean, in the case of the Borrower, the fiscal year of the Borrower as determined from time to time by the Borrower (currently the Borrower's Fiscal Year begins on July 1 of each calendar year and ends on June 30 of the following calendar year).

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Owner” shall mean the holders and/or beneficial owners from time to time of the Series 2019 Bonds.

“Reportable Event” shall mean any of the events listed on Schedule 2 hereto with respect to the Series 2019 Bonds.

“Trustee” shall mean Manufacturers and Traders Trust Company, as trustee under the Indenture.

**Section 2. Covenants of the Borrower.** The Borrower covenants to comply with all requirements of the Rule. In furtherance of the foregoing, and without limiting the generality thereof, the Borrower agrees to provide to EMMA and to the Dissemination Agent, the Annual Financial Information within 180 days following the end of each Fiscal Year of the Borrower and to provide notice of the occurrence of any Reportable Event, in a timely manner not in excess of 10 business days after the occurrence thereof, to EMMA. In addition, the Borrower covenants to provide notice in a timely manner to EMMA of a failure by the Borrower to provide the Annual Financial Information as and when specified in the preceding sentence. At the same time that the Borrower provides any Annual Financial Information or any notice to EMMA, the Borrower shall provide a copy to the Issuer and the Trustee. Financial statements will be prepared in accordance with generally accepted accounting principles. In the event that audited financial statements for any Fiscal Year are not available within 180 days after the end of such Fiscal Year, the Borrower shall provide to EMMA (with copies to the Trustee and the Issuer) its unaudited financial statements for such Fiscal Year and shall provide to EMMA (with copies to the Trustee and the Issuer) the audited financial statements as soon as practicable after they become available for distribution.

**Section 3. Duties of Dissemination Agent.**

(a) If, within 15 days prior to the applicable date specified in Section 2 hereof, the Dissemination Agent has not received a copy of the applicable Annual Financial Information, the Dissemination Agent shall notify the Borrower and the Issuer of such fact. The Dissemination Agent shall also notify the Borrower and the Issuer within two business days of the occurrence of any event of which the Dissemination Agent has actual knowledge and which could constitute a Reportable Event.

(b) The Dissemination Agent shall have no responsibility or liability in connection with the Borrower's filing obligations under this Disclosure Agreement, and it shall have no responsibility to review, and shall not be responsible for, the contents of any Annual Financial Information or Reportable Events report filed hereunder. The Dissemination Agent shall have only those duties specifically set forth in this Disclosure Agreement and no other duties shall be implied. The Borrower agrees to indemnify and hold the Dissemination Agent

and its directors, officers, agents and employees (collectively, the “Indemnitees”) harmless from and against any and all claims, liabilities, losses, damages, fines, penalties, and expenses, including out-of-pocket, incidental expenses, legal fees and expenses, and the allocated costs and expenses of in-house counsel and legal staff (“Losses”) that may be imposed on, incurred by, or asserted against, the Indemnitees or any of them for following any instructions or other directions upon which the Dissemination Agent is authorized to rely pursuant to terms of this Disclosure Agreement. In addition to and not in limitation of the immediately preceding sentence, the Borrower also agrees to indemnify and hold the Indemnitees and each of them harmless from and against any and all Losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Dissemination Agent's performance under this Disclosure Agreement, provided the Dissemination Agent has not acted with gross negligence or engaged in willful misconduct. Anything in this Disclosure Agreement to the contrary notwithstanding, in no event shall the Dissemination Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Dissemination Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

This Section 3 shall survive the termination of this Disclosure Agreement or the removal or resignation of the Dissemination Agent.

**Section 4. Termination of Reporting Obligations.** The Borrower's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2019 Bonds. If the Borrower's obligations under the Loan Agreement are assumed in full by some other entity and the Borrower has been released from its obligations under the Loan Agreement with respect to the Series 2019 Bonds in connection therewith, such other entity shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Borrower and the Borrower shall have no further responsibility hereunder except as provided in Section 3. In addition, the Borrower's obligation to provide information and notices as specified in Section 2 hereof shall terminate at such other times as such information and notices (or any portion thereof) are no longer required to be provided by the Rule as it applies to the Series 2019 Bonds.

**Section 5. Amendment.** The Borrower and the Dissemination Agent may amend this Disclosure Agreement, including amendments deemed necessary or appropriate in the judgment of the Borrower (whether to reflect changes in the availability of information or in accounting standards or otherwise), 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 undertakings of the Borrower contained in Section 2 hereof or to Schedule 1 hereto, such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Borrower or the type of business or operations conducted by the Borrower;

(b) The undertakings contained in this Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of Bond Counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2019 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment either (i) is approved by the Owners of the Series 2019 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of Bond Counsel, materially impair the interests of the Owners of the Series 2019 Bonds.

The Borrower shall provide notice of any amendment to this Disclosure Agreement to EMMA in a timely manner. Before being required to execute any proposed amendment to this Disclosure Agreement, the Dissemination Agent shall be provided with an opinion of counsel reasonably satisfactory to it to the effect that such proposed amendment is permitted under this Section 5.

**Section 6. Remedies for Default.** In the event of a breach or default by the Borrower of its covenants to provide Annual Financial Information and notices as provided in Section 2 hereof, the Issuer, the Dissemination Agent or any Owner of Bonds shall have the right, but not the obligation, to bring an action in a court of competent jurisdiction to compel specific performance by the Borrower. No monetary damages may be recovered under any circumstances for any breach or default by the Borrower of its covenants hereunder. A breach or default under this Disclosure Agreement shall not constitute an event of default under any other agreement.

**Section 7. Indemnification of Issuer.** The Issuer shall have no responsibility or liability for the Borrower's filing obligations under this Disclosure Agreement or for the contents of such filings. The Borrower agrees to indemnify and save harmless the Issuer, the Department of Commerce, the State of Maryland and their respective members, officers, employees and agents against and from any claims, loss, expense (including reasonable attorney's fees) or liability arising from or based upon (i) any breach by the Borrower of this Disclosure Agreement or (ii) any Annual Financial Information or notices provided under this Disclosure Agreement or any omissions therefrom. The Issuer shall have no obligation or responsibility hereunder for any information received pursuant hereto or the distribution thereof.

**Section 8. Miscellaneous.**

(a) **Binding Nature of Agreement.** This Disclosure Agreement shall be binding upon the Borrower, the Issuer and the Dissemination Agent and inure to the benefit of the parties hereto and their respective successors and assigns.

(b) **Notices.** All notices and other communications required or permitted under this Disclosure Agreement shall be in writing and shall be deemed to have been duly given, made and received only when delivered (personally, by recognized national or regional courier service, or by other messenger, for delivery to the intended addressee) or when deposited in the United States mail, registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

Borrower:

McDONOGH SCHOOL, INCORPORATED  
8600 McDonogh Road  
Baltimore, Maryland 21208  
Attention: Chief Financial Officer  
Telephone: 410-581-4712  
Facsimile: 410-363-3893  
Email: svoelkel@mcdonogh.org

Dissemination  
Agent:

MANUFACTURERS AND TRADERS  
TRUST COMPANY  
3951 Westerre Parkway, Suite 300  
Richmond, Virginia 23233  
Attention: Global Capital Markets  
Telephone: 804-754-4809  
Facsimile: 804-741-4365  
Email: jeholloway@wilmingtontrust.com

Issuer:

MARYLAND INDUSTRIAL DEVELOPMENT  
FINANCING AUTHORITY  
401 East Pratt Street, 17<sup>th</sup> Floor  
Baltimore, Maryland 21202  
Attention: Executive Director  
Telephone: 410-767-2369  
Facsimile: 410-333-6931  
Email: timothy.doyle@maryland.gov

Any party may alter the address to which communications are sent by giving notice of such change of address in conformity with the provision of this Section for the giving of notice.

(c) Execution in Counterparts. This Disclosure Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Disclosure Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

(d) Controlling Law. This Disclosure Agreement and all questions relating to its validity, interpretation, performance and enforcement shall be governed by and construed in accordance with the laws of the State of Maryland and the Rule (including any successor rule or regulation thereto).

(e) Resignation. The Dissemination Agent may resign and thereby become discharged from the duties as such under this Disclosure Agreement by notice given in accordance with subsection (b) above, such resignation to become effective on the earlier of the tenth day following the Borrower's and the Issuer's receipt of such notice (or at such different date as stated in such notice) or the effective date of the Borrower's appointment of a new Dissemination Agent under this Disclosure Agreement.

(f) Successor Dissemination Agent. Any corporation or association into which the Dissemination Agent in its individual capacity may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, conversion or consolidation to which the Dissemination Agent in its individual capacity shall be a party, or any corporation or association to which all or substantially all the corporate trust

business of the Dissemination Agent in its individual capacity may be sold or otherwise transferred, shall be the Dissemination Agent hereunder without further act.

**[SIGNATURE PAGE FOLLOWS]**

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

**MCDONOGH SCHOOL, INCORPORATED**

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

**MANUFACTURERS AND TRADERS TRUST  
COMPANY, as Dissemination Agent**

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

## **Schedule 1**

### **Annual Financial Information**

Within 180 days following the end of each Fiscal Year of the Borrower beginning with the Fiscal Year ending June 30, 2019, the Borrower will provide (a) audited financial statements for such Fiscal Year prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board; and (b) financial and operating data generally consistent with the following information contained in Appendix A of the Official Statement dated February \_\_, 2019 relating to the Series 2019 Bonds (the “Official Statement”): ADMISSIONS AND ENROLLMENT; ADVANCEMENT/FUNDRAISING; COMPETITIVE ENVIRONMENT; and ENDOWMENT AND INVESTMENTS POLICY.



## **Schedule 2**

### **Reportable Events**

The following events with respect to the Series 2019 Bonds shall constitute Reportable Events:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2019 Bonds, or other material events affecting the tax status of the Series 2019 Bonds.
7. Modifications to rights of Bondholders, if material.
8. Bond calls, if material, and tender offers.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Series 2019 Bonds, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar event of the Borrower. For purposes of this clause (12), any such event shall be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Borrower in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Borrower, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Borrower.
13. The consummation of a merger, consolidation, or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or paying agent or the change of the name of a trustee or paying agent, if material.

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MCDONOGH SCHOOL