M&T Bank
Understanding what's important®

AppleTree Early Learning Public Charter School

March 12, 2010

Approved Term Sheet

The following is a summary of the terms and conditions under which M&T Bank (the "Bank") is to consider providing financing to the AppleTree Early Learning Public Charter School (the "Borrower"). This outline does not constitute a commitment on the part of the Bank to make the proposed loan and is intended as a discussion outline only. It does not purport to summarize all of the terms, conditions, covenants, representations, warranties and other provisions that would be contained in a definitive legal document for the proposed transaction. Any commitment to lend is made only after the proper due diligence is performed by the Bank and approved by the Bank in writing and absent any material adverse change.

BORROWER: AppleTree Early Learning Public Charter School (**"Borrower"**).

CREDIT FACILITY: Up to **$3,535,000 Qualified School Construction Bond**, not to exceed the lesser of 70% of the bank-commissioned appraisal values or 70% of the project costs of the properties and buildings at 138 12th Street NE and 2017 Savannah Terrace, SE.

PURPOSE: To finance the renovations at **138 12th Street NE** (Square 0988, Lot 0104 - Capitol Hill Campus) and leasehold improvements at **2017 Savannah Terrace, SE** (Square 5894, Lot 40 - Douglass Knoll Campus) in Washington DC, including related capital expenditures (collectively herein referred to as the "Project").

ISSUER: District of Columbia

MATURITY: Up to the lesser of 17 years or the maximum allowable maturity as defined by the United States Department of the Treasury (17 years as of March 8th, 2010).

TAX CREDIT RATE: The tax credit rate at issuance will be the prevailing Qualified Tax Credit Rate as published by the U.S. Department of the Treasury (5.85% as of March 8th, 2010).

AMORTIZATION: Level monthly principal payments to the Sinking Fund (see below) beginning on November 1, 2010 sufficient to fully amortize the principal by the Maturity Date.

CALL DATES: The Bank shall have the ability to call the Bond as a whole for prepayment after 5 years, 10 years and 15 years following the initial Bond closing date (the "Call Dates"). If the Bank does not give the Borrower notice to extend 90 days prior to the call date, the bonds will automatically be called.

SUPPLEMENTAL INTEREST: Determined at closing or at the Call Dates, the Borrower may be required to pay supplemental interest, monthly, on the Bond amount based on the following formula:

Supplemental Interest = the Bank's, then effective, 5-year Cost of Funds plus 3.50% less the Tax Credit Rate on the Bond

If the Supplemental Interest is less than zero, there is no interest owed by the Borrower. Any supplemental interest payment amount owed by the Borrower will be fixed until the next Call Date.

As an indication, the Bank's 5-year Cost of Funds and the Tax Credit Rate were 2.64% and 5.85% at March 8, 2010, respectively. Therefore, the Supplemental Interest would be **0.29%** (2.64%+3.50% = 6.14% is 0.29% greater than 5.85 %).

COMMITTMENT FEE: **1.00%** of the committed amount, payable at closing.

PREPAYMENT: Prepayment of the bonds will not be allowed without consent of the Bank.

SINKING FUND: All principal payments will be made to a Sinking Fund. The Sinking Fund will be invested in one of the following:

1) M&T Commercial Savings Account with a fixed rate of 0.50%;

2) M&T Commercial Money Market with a variable rate not to exceed the lesser of 1.00% or the maximum allowable rate for tax credit bond sinking funds as set by the U.S. Department of the Treasury. As of January 28, 2010 the M&T Commercial Money Market rate was 0.35%.

Interest earned will be remitted to an account designated by the Borrower for the benefit of the Borrower. At the Call Dates, the Borrower has the option to again select between the investment options for the next period. The M&T Commercial Savings Account rate is subject to adjustment at the Call Dates.

COLLATERAL: To the Bond:

1) 1st priority lien on all business assets of the Borrower;

2) An assignment of the lease between the Borrower and AppleTree Institute for Education Innovation for the **138 12th Street, NE** Property. The lease must be fully assignable to another nonprofit organization. The lease will be subordinated to the Bank as to timing and payments.

3) An assignment of the lease between AppleTree Institute for

Education Innovation and the Borrower for the **2017 Savannah Terrace, SE** Property. The lease must be fully assignable to another nonprofit organization. The lease will be subordinated to the Bank as to timing and payments, if applicable. Should the Guarantor exercise the option to purchase the Property, the Bank reserves the option to take a lien on the Property;

4) Pledge of revenue related to the Capitol Hill and Douglass Knoll campuses including DCPS facilities funding.

5) Negative pledge on future unrestricted philanthropic pledges;

6) Construction Documents & Materials - Without limitation of the foregoing, the Bank shall have (i) a first priority security interest in all building materials, supplies, contract rights, accounts, plans and specifications and other personal property relating to, located on or used or usable in connection with the construction, use, occupancy, operation or maintenance of the Projects and (ii) a first priority collateral assignment of, and first priority security interest in, the general contractor's contract, architect's contract, subcontracts, warranties, rights, licenses, permits, approvals and other agreements relating to the construction, use, occupancy, operation or maintenance of the Project;

7) Pledge of a debt service reserve to be held at M&T Bank equal to one year of debt service, funded by a source acceptable to the Bank (the "Debt Service Reserve"). The Bank will be able to use the reserve for other fees and expenses associated with the loan. From the date the Reserve is used for any allowable reason, the Borrower will replenish the balance in level monthly payments over twelve months. Provided all loan covenants have been met, the Debt Service Reserve can be released at the first call date;

8) The full balance of the Sinking Fund.

9) Assignment of accounts held with Trustee for the Project.

NOTE: This collateral will not be pledged to secure any other debt, without prior written consent of the Bank.

GUARANTEES:

1) AppleTree Institute for Education Innovation, unlimited. **Collateral:** 1st priority mortgage on **138 12th Street NE.** The guarantee can not expire if the Borrower is in default.

2) $400,000 OSSE limited guarantee, unfunded, for the leasehold improvements at **2017 Savannah Terrace, SE** (Douglass Knoll Campus) to remain in effect until December 31, 2013.

CONDITIONS PRECEDENT TO CLOSING:

Including but not limited to:

1) The Borrower has demonstrated the Proforma ability to comply with covenants and requirements of the loan documents after closing;

2) A Bank commissioned, FIRREA compliant appraisal of the **138 112th Street, NE** property and the **2017 Savannah Terrace, SE** property demonstrating value sufficient to meet the requirements set forth in the "Credit Facility" section.

3) A Phase I Environmental Report, and Phase II if necessary, acceptable to the Bank (at the Borrower's expense) on the **138 112th Street, NE** property conducted by a Bank-selected environmental assessor;

4) Submission of complete construction budget cost analysis and determination by Bank approved engineer that costs are sufficient to complete the Project;

5) Submission of an opinion from Bond Counsel stating that 100% of the Bond proceeds related to the construction schedule are for a "Qualified Purpose" as defined by IRS Tax Code 54F4.

6) Bank's satisfactory receipt and review of construction contracts (including a guaranteed maximum fixed price contract or other form of contract reasonably satisfactory to the Bank) from a general contractor acceptable to the Bank;

7) Receipt of and satisfactory review by the Bank of the Grant Agreements between the Borrower and the Office of the State Superintendent ("OSSE").

8) The Bank reserves the right to require a Bank-commissioned structural inspection of the Property.

9) The Bank's review and acceptance of the lease agreements between AppleTree Early Learning Center, AppleTree Institute for Education Innovation and the Non-Profit Community Development Corporation of Washington, D.C., Inc, to include a nondisturbance agreement for the **2017 Savannah Terrace SE** property.

10) The Bank's review and acceptance of the Borrower's construction schedule, demonstrating a plan to have sufficient space available to open for the 2010 school year or a plan that allows for the school to be open during renovations.

11) The Bank's successful negotiation of an agreement that subordinates the Guarantor's unsecured note with the Board Member. The sub-

debt will carry a minimum term of five years. No payments may be made to the sub-debt in the event of default.

12) The District's 2009 QZAB allocation closed, to ensure funding of this project, or commitment from the District acceptable to the Bank.

EXPENSES:

The Borrower is responsible for the payment of all expenses incurred by the Bank, including those associated with the closing of the loan and filing fees.

CONSTRUCTION CONTROLS:

Including but not limited to:

1) The Bond proceeds, equity contributions and City Build Grants will be released to M&T Corporate Trust at issuance. As draws are approved by the M&T Construction Monitoring Group, the funds will be advanced from the Trustee to the Borrower's operating account.

2) Draw requests will be reviewed by a third party project engineer, contracted by the Bank at the Borrower's expense, and approved by the M&T Bank Construction Monitoring Group.

3) The Bank will require performance bonds for the general contractor and/or major subcontractors. Deviation from this control requires Bank approval.

FINANCIAL COVENANTS:

All covenants to be met on a proforma and actual basis:

1) Debt Service Coverage, to the Borrower: The quotient obtained by dividing the sum of the Borrower's change in unrestricted net assets, plus depreciation and amortization, plus interest expense (including supplemental and sub-debt interest expense), plus/minus unrealized decline/appreciation in unrestricted assets or swap values, divided by the sum of current maturities of long-term debt, including capital lease payments, plus interest expense (including supplemental and sub-debt interest expense), for the 12-month period ending on the determination date shall be no less than **1.2 to 1.00**, measured annually. After the first call date and if the Debt Service Reserve is released the Debt Service Coverage ratio will be **1.25** times.

2) Maximum Total Liabilities to Unrestricted Net Assets, to the combined balance sheets of the Borrower and the Guarantor: The combined ratio of Total Liabilities to Unrestricted Net Assets shall not exceed **4.00**, measured quarterly.

3) Fixed Charge Coverage Ratio, to the Borrower: The quotient obtained by dividing the sum of the Borrower's change in unrestricted net assets, plus depreciation and amortization, plus interest expense (including supplemental and sub-debt interest expense), plus/minus unrealized decline/appreciation in unrestricted assets or swap values, plus lease payments, divided by the sum of

current maturities of long-term debt, including lease payments plus interest expense (including supplemental and sub-debt interest expense), for the 12-month period ending on the determination date shall be no less than **1.0 to 1.0**, measured annually.

4) Bank debt will be cross-defaulted with all debt of the Borrower and the unlimited guarantor, the Institute.

5) The ratio of the total facilities funding the Borrower receives from the District of Columbia to total debt service shall be no less than **1.10 to 1.00**, measured annually.

6) Debt Service Coverage, to the Guarantor: The quotient obtained by dividing the sum of the Guarantor's change in unrestricted net assets, plus depreciation and amortization, plus interest expense (including supplemental and sub-debt interest expense), plus/minus unrealized decline/appreciation in unrestricted assets or swap values, divided by the sum of current maturities of long-term debt, including capital lease payments, plus interest expense (including supplemental and sub-debt interest expense), for the 12-month period ending on the determination date shall be no less than **1.1 to 1.00**, measured annually.

PROVISIONS & COVENANTS:

Usual and customary for facilities of this size, type and purpose, including but not limited to:

1) No new debt or additional indebtedness for Borrower without prior written consent of the Bank;

2) Borrower shall open and maintain operating accounts at the Bank;

3) Maintain proper casualty, title, and business interruption insurance;

4) The Bank debt will be drawn upon only after the equity and QZAB grant has been fully utilized;

5) The Borrower shall demonstrate, based on the October 5, 2010 reporting to the District of Columbia, minimum enrollment of 115 students combined in the Douglass Knoll and Capitol Hill Campuses;

6) Tax credit recapture for any reason is an event of default.

DEFAULT PROVISIONS: In the event of default or non-compliance, the remaining principal balance will immediately be due in addition to any uncollected or recaptured tax credits and Supplemental Interest, if applicable, between the recapture date and the next applicable Call Date. The Borrower will also be responsible for any legal fees, taxes, penalties, and interest as determined by the Internal Revenue service, if the IRS disallows the credit resulting from any failure of the Borrower to comply with regulations of the QSCB program.

INFORMATION REPORTING: Including but not limited to:

1) Quarterly Borrower-prepared financial statements for the Borrower and the Guarantor within 45 days of each quarter end.

2) Quarterly covenant compliance certificate, including the financial year end, signed by the Chief Executive Officer or other authorized representative acceptable to the Bank delivered within 45 days of quarter's end.

3) Annual internally prepared financial statements within 45 days of the fiscal year's end for the Borrower and the Guarantor.

4) Annual audited financial statements for the Borrower and the Guarantor within 120 days of the fiscal year's end.

5) Annual budget for the Borrower and the Guarantor containing a detailed statement of net assets and statement of activities, by the start of the next fiscal year.

6) Notification, in writing within 5 days, of any deficiencies as reported to the Borrower from the District of Columbia Public Charter School Board.

SEVERABILITY: The terms, conditions, and pricing of the Credit Facilities proposed in this document are offered contingent upon the Bank providing all services described herein.

PROPOSAL EXPIRATION: This proposal will expire on March 31st, 2010.

PROPOSAL ACCEPTED THIS _____ DAY OF _______________, 2010.

By: ____

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL, NAME, TITLE

By: ____

APPLETREE INSTITUTE FOR EDUCATION INNOVATION, NAME, TITLE