

**NEW ISSUE-FULL BOOK-ENTRY**

**Rating: “...”**  
See “RATING” herein.

\$.....  
**“STATE” SCHOOL FINANCE AUTHORITY  
CHARTER SCHOOL REVENUE BONDS  
 (“SAMPLE CHARTER SCHOOL” PROJECT)**

\$.....  
Series 2014A

\$.....  
Series 2014B (Taxable)

Dated: Date of Delivery

Due: October 1, as shown on inside cover

*This cover page contains information for general reference only. It is not intended as a summary of these issues. Investors must read the entire Offering Statement to obtain information essential to making an informed investment decision.*

The “Sample State” School Finance Authority Charter School Revenue Bonds (“Sample Charter School” Project), Series 2014A, in the aggregate principal amount of \$.....(the “Series 2014A Bonds” or the “Tax-Exempt Bonds”) and the “Sample State” School Finance Authority Charter School Revenue Bonds (“Sample Charter School” Project), Series 2014B (Taxable), in the aggregate principal amount of \$..... (the “Series 2014B Bonds” or the “Taxable Bonds” and, together with the Series 2014A Bonds, the “Bonds”) will be issued by the “Sample State” School Finance Authority (the “Authority”) pursuant to an Indenture, dated as of February 1, 2014 (the “Indenture”), by and between the Authority and “Sample Trustee”, as trustee (the “Trustee”). The Authority will loan the proceeds of the Bonds to “Sample Charter School” Charter School, Inc. a “Sample State” nonprofit, public benefit corporation and charter school (the “Borrower”), pursuant to a Loan Agreement, dated as of February 1, 2014, by and between the Authority and the Borrower (the “Loan Agreement”).

The Bonds are limited obligations of the Authority payable only out of certain revenues and other amounts held in the funds established by the Indenture (except the Rebate Fund). The obligations of the Borrower under the Loan Agreement are payable from the Gross Revenues (as defined herein) required to be deposited with the Trustee pursuant to the Indenture. **THE BORROWER MAY NOT CHARGE TUITION AND HAS NO TAXING AUTHORITY.**

Interest on the Bonds will be payable semiannually on each April 1 and October 1 commencing October 1, 2014. The Bonds are being issued as fully registered bonds and initially will be registered in the name of Cede & Co. as nominee for the Depository Trust Company, New York, “Sample State” (“DTC”). DTC will act as securities depository for the Bonds.

The Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described under “THE BONDS-Redemption” herein.

The Bonds constitute special, limited obligations of the Authority and except to the extent payable from Bond proceeds and investment income, are payable solely from certain payments, revenues and other amounts derived by the Authority pursuant to the terms of the Loan Agreement. The Bonds are secured by a pledge of (a) certain rights and interests of the Authority under and pursuant to the Loan Agreement, (b) certain rights and interests of the Authority under and pursuant to the Deed of Trust, encumbering the K-8 Facility, and all rights and interest of the Authority in the K-8 Facility subject to Permitted Encumbrances, (c) the Pledged Revenues and all rights and interests of the Authority in the Pledged Revenues, subject to Permitted Encumbrances, except certain rights of the Authority set forth in the Loan Agreement, (d) the rights and interests of the Authority and the Corporation in the Lease, except certain rights of the Authority and the Corporation set forth in the Lease, (e) all Funds created in the Indenture (other than the Rebate Fund), subject to certain provisions of the Indenture, and (f) any and all other interests in real or personal property specifically mortgaged, pledged or hypothecated, as and for additional security under the Indenture as set

forth therein. Payments to be received from the Charter School by the Corporation under the Lease will be the Corporation's sole expected source of Pledged Revenues and the Lease is subject to annual appropriation by the Charter School.

THE BONDS ARE NOT AND SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF "SAMPLE STATE" (THE "STATE") OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, AND ARE NOT AND SHALL NOT BE DEEMED TO BE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE, OR OF ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. NEITHER THE STATE NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE REDEMPTION PREMIUM, IF ANY, OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER. NOTHING IN THE INDENTURE, THE ACT OR OTHERWISE IS AN UNDERTAKING BY THE AUTHORITY OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO FUND THE TRANSFERS DESCRIBED IN THE INTERCEPT NOTICE (DEFINED HEREIN) OR TO MAKE FUNDS AVAILABLE TO THE BORROWER IN ANY AMOUNT OR AT ANY TIME.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale and approval of legality by "Sample Bond Counsel" "Sample State", Bond Counsel to the Authority, the approval of certain matters for the Authority by the "Sample State Attorney General", Attorney General of the State of "Sample State", and the approval of certain matters for the Borrower by the Law Office of "Sample Attorney", "Sample State". Certain legal matters will be passed upon for the Authority by "Sample Disclosure Counsel", as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by "Sample Underwriter's Counsel", "Sample State", Underwriter's Counsel. It is expected that the Bonds in definitive form will be available for delivery through the facilities of The Depository Trust Company in New York, New York, on or about February 7, 2014

Dated: Month, Day, Year

**RBC Capital Markets**  
**Piper Jaffrey**  
**TD Securities**  
**George K. Baum**  
**Baird**  
**Janney**  
**D.A. Davidson & Co.**  
**PNC**  
**Jefferies**  
**Oppenheimer & Co. Inc.**  
**Ziegler**

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE INSTITUTIONS OR THE UNDERWRITERS TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY ANY OF THE FOREGOING. ALL INFORMATION CONTAINED HEREIN HAS BEEN OBTAINED FROM THE INSTITUTIONS AND OTHER SOURCES WHICH ARE BELIEVED TO BE ACCURATE AND RELIABLE, BUT NO REPRESENTATION, WARRANTY, OR GUARANTEE IS MADE AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION IN THIS

OFFICIAL STATEMENT. *THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES TO INVESTORS UNDER FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.* NOTHING CONTAINED IN THIS OFFICIAL STATEMENT CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR THERE BE ANY SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO COMPLETION AND AMENDMENT. NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY STATEMENT NOR ANY SALE MADE HEREUNDER WILL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE INSTITUTIONS SINCE THE DATE HEREOF.

This Official Statement contains summaries believed to be accurate of certain documents, but reference is hereby made to the actual documents, copies of which are incorporated by reference and are available at the offices of the Trustee, and all such summaries are qualified in their entirety by this reference. Prospective purchasers are referred to the Act, the Charter Schools Act, the Charters of each of the Institutions, the Loan Agreement, the Indenture, the Custody Agreement, the Mortgage, and the Guaranty, which documents are available for inspection at the principal corporate trust office of the Trustee specified herein. During the initial offering period with respect to the Series 2012 Bonds, copies of all such documents in draft or executed form may be obtained by contacting “Sample Underwriter”.

The information included herein under the caption “THE BONDS—Book-Entry Only System” concerning DTC has been furnished by DTC for inclusion herein. The information included herein under the captions “THE ISSUER” and “LITIGATION AND ADMINISTRATIVE PROCEEDINGS—The Issuer” has been furnished by the Issuer for inclusion herein. The Institutions have furnished all information in this Official Statement and the Appendices attached hereto relating to the Institutions, the Series 2014 Facility and the Estimated Sources and Application of Funds, including all information set forth in the Appendices hereto. All other information included herein has been obtained from sources which are believed to be reliable.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute “forward looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward looking statements. A number of important factors affecting the Institutions’ financial results could cause actual results to differ materially from those stated in the forward looking statements. See “CERTAIN BONDHOLDERS’ RISKS” and “APPENDIX A.”

MATURITY SCHEDULE

\$.....  
“SAMPLE STATE” SCHOOL FINANCE  
AUTHORITY  
CHARTER SCHOOL REVENUE BONDS  
 (“SAMPLE CHARTER SCHOOL” PROJECT)

\$.....  
Series 2014A

\$..... 5.00% Bonds Due October 1, 2022- Priced to Yield 4.30% CUSIP XXXXXX XXX  
\$..... 5.00% Bonds Due October 1, 2033- Priced to Yield 4.83% CUSIP XXXXXX XXX  
\$..... 5.00% Bonds Due October 1, 2042- Priced to Yield 5.07% CUSIP XXXXXX XXX

\$.....  
Series 2014B (Taxable)

\$..... 6.25% Bonds Due October 1, 2016- Priced to Yield 6.25% CUSIP XXXXXX XXX

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<sup>†</sup>CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor’s Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Underwriter nor the District is responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(1)</sup>Yield to call at par on October 1, 2022.

**LOCAL INITIATIVES SUPPORT CORPORATION**  
**CHARTER SCHOOL TAX-EXEMPT MUNICIPAL BOND DISCLOSURE TEMPLATE**  
**Funded By: The Bill & Melinda Gates Foundation;**  
**Written By: Wendy Berry**

**I. Introduction**

Local Initiatives Support Corporation (“LISC”) and its Educational Facilities Financing Center (“EFFC”) support quality public charter schools in low-income neighborhoods as part of LISC’s community development work across the country. LISC has gained significant insight into the needs of charter schools while working in the sector the past 16 years and found that accessing facilities financing on affordable terms remains one of the largest impediments to the development of high-quality charter schools.

In an effort to provide greater transparency to charter school bond market participants, with the ultimate goal of expanding the capital markets for charter school facilities in the absence of a broad public solution, LISC has published a series of comprehensive reports on the sector. With support from the Bill and Melinda Gates Foundation (“BMGF”), LISC released *Charter School Bond Issuance: A Complete History, Volume 1* in 2011, providing the first comprehensive listing of tax-exempt charter school bond issuances through year-end 2010, including detailed analysis of their pricing. *Charter School Bond Issuance: A Complete History, Volume 2 (“Bond Research”)*, published in November of 2012, examined the academic, operational, and financial drivers of credit strength and risk for charter schools and the metrics for measuring them. The report also analyzed the credit characteristics of charter school borrowers at the time of issuance, the current financial strength of bond-financed charter schools as reflected in audited financial statements for Fiscal Year 2011, the repayment performance of these borrowers, and evaluated the disclosure provided in charter school bond offerings.

As part of LISC’s 2012 research on disclosure practices, it concluded that certain critical information was frequently either missing or incomplete. Indeed, the focus was often on information not germane to evaluating charter school credit risk, such as economic and demographic information for the resident school district, county, state, and even the nation.

While disclosure has improved materially from the very early transactions executed in the late 1990’s, examining even those offerings issued in 2013 shows certain information still missing from many official statements, particularly detailed academic results. This situation may be due – at least in part – to lack of general agreement among market participants of the key credit criteria and underwriting standards when assessing charter schools. This uncertainty is reflected in the 2011 changes to rating criteria by Fitch Ratings as well as the soon to-be-released National Federation of Municipal Analysts’ draft, Recommended Best Practices in Charter School Financings.

With volume hitting record levels in 2012 and 2013 – resulting in a doubling of the sector in the last seven years— coupled with the phenomenal growth that the sector has experienced, the demand by charter schools looking to access the tax-exempt market is likely to remain strong and overall sector volume will likely continue to expand.

Given this state of the charter school bond sector — with greater volumes expected in the future while the material disclosure gap continues to exist — with additional funding from BMGF, LISC has created an official statement template as an addendum to the *Bond Research*. This disclosure template shows critical data that we believe gives a very clear roadmap to underwriters and charter school borrowers allowing them to produce a disclosure document that should enable the greatest possible investor community review for new transactions. Expanding the number of potential investors typically results in reduced borrowing costs, thereby allowing schools to invest more in core educational programs.

With the best practices highlighted in this template, market participants – investors, underwriters, rating agencies, bond and underwriter’s counsel, conduit issuers, states, municipalities, and charter schools and their authorizers – can adopt consistent and standardized disclosure practices that will benefit the charter school sector as it continues to scale.

This template shows critical data and specific examples that we believe highlight best practices in charter school bond financing disclosure. To create this template, LISC used an official statement from an RBC Capital Markets underwritten transaction that was generally comprehensive in nature and inserted excerpts from other disclosure documents, that combined, create an example of what we consider to be ideal disclosure for the vast majority of charter school transactions. Due to the combined nature of the information, the reader should review each section as independent information, i.e. not necessarily consistent with other sections. Examples include a debt service schedule that details principal of \$30 million while a separate discussion of project costs may only total \$12 million supported by another appraisal section that may show a value of \$5 million. Likewise, a discussion of statutory provisions in “Sample State” may be inconsistent with a separate discussion of competing schools in the City of Philadelphia. In addition, wherever possible, we made states, cities, and schools generic in name. We have listed the underwriting firms whose disclosure was excerpted in the order of information used.

The template makes recommendations on what should be incorporated into a charter school bond disclosure statement, and below are highlights and explanations on the best practice recommendations:

### **Academic Results**

- Standardized test results, by grade
  - Academic performance is a fundamental factor in charter school underwriting. It drives enrollment, financial strength and charter renewal. It is impossible to assess credit strength or risk without a measure for, and disclosure of, this key factor. While disclosure has improved over the sector’s history (with some still missing information on student results, focusing instead on educational philosophy, curriculum and other educational inputs), there is significant variation in both the magnitude and type of academic performance data provided in many official statements. Our 2012 research found that the percentage of offerings which included comprehensive multi-year academic performance data averaged only 45% from 2008-2011.
  - The preference is to include comprehensive reporting of multiple years of academic results on mandated tests disaggregated by grade and by subject as appropriate, together with host district, state, and neighboring school comparables; also include a discussion of adequate yearly progress (AYP) and the school’s report card. Disclosure of improved performance data in a more standardized form will enable market participants to directly evaluate academics and greatly clarify what constitutes a quality school.

### **Corporate Governance and Management**

- Board Governance
  - As with all not-for-profit organizations, a charter school’s corporate governance and management are critical underwriting components. Disclosure documents should include the school’s mission as well as the following details on its Board composition: member names; qualifications; tenure; and, term expirations, in order for the reader to evaluate the diversity of the Board’s experience as well as how long the members have been affiliated with the school. The discussion should also disclose how frequently the Board meets, how other oversight practices are carried out, and how policies and procedures are implemented. Further, minutes from Board meetings should be made available either via the school’s website or as part of the offering documents.
- Management
  - The offering document should focus on school management, particularly a detailed description of the qualifications and experience of key administrative personnel and their tenure. Any conflicts of interest, particularly as they relate to the facility purchase and construction, if applicable, should be disclosed as well as the school’s formal conflict of interest policy.
- Third Party Management Organizations
  - If a school is managed by a third party management organization, the disclosure statement should contain a detailed description of the selection process as well as the company’s qualifications, term, and compensation. In addition, a summary of the third party management contract should be included, with the actual contract made available to investors.

### **Enrollment**

- Given that charter school bonds are secured with per pupil revenues, enrollment data is another key underwriting variable. As such, information should include comprehensive historical and projected enrollment

numbers by grade. Particularly for those schools that receive per pupil funding directly from one or more school districts rather than from the state, enrollment by school district should be included. Per pupil amounts can be vastly different among school districts.

- Historical and projected information should be shown on the same chart but clearly delineated so the reader can more easily assess the school's past, current, and projected enrollment. Generally, the inclusion of both headcount and the budgetary equivalent reflected in historical financial performance and employed in pro forma projections is most informative.

### **Waitlist Information**

- Charter schools typically maintain waitlists for students who would like to attend the school, but did not receive spots through the lottery process. Waitlist quality varies based on the frequency that the school updates the list. However, the size of a school's waitlist is important from an underwriting perspective both because it is an indicator of academic quality (thereby demand) and because the school can draw upon its waitlist to maintain enrollment. Our disclosure analysis concluded that only 59% of the offering documents contained waitlist information. Offering documents should include a detailed historical waitlist by grade and a description of how the school manages its waitlist, i.e. the frequency the list is updated and which grades are entrance points for newly enrolled students.

### **Facility Information**

- As a school's facility serves as the primary collateral for bondholders, a description of the current facility and/or the new project should be included in all offering documents. Details should include the age of the facility, its condition and location, capacity constraints, grades served, as well as the number of classrooms and the presence of specialized space, e.g. cafeteria, gymnasium, playground, parking, etc. A discussion of how the purchase price was determined, if applicable, should also be included. For new construction projects, the offering statement should also include a discussion of the general contractor, guaranteed maximum price, if applicable; permit process, and the team's experience in constructing new school facilities on time and within budget.
- Appraisal Information
  - In order for investors to get a sense of the collateral facility's value, particularly a summary of an independent appraisal conducted by a MAI (Member Appraisal Institute) designated appraiser should be disclosed. The full appraisal should also be made available to investors.
- Environmental Reports
  - A summary of Phase I and II, if applicable, should also be included in the disclosure document with actual environmental reports made available to investors.

### **Financial Information**

- Audited financials
  - A borrower's audited financial statements are a fundamental component of any offering document and it is standard practice to include such historical financial data in charter school bond offerings. An official statement should include at least **three** years of audited financial statement. Our research found that approximately 5% of the offering documents failed to include audited financials.
- Quarterly financials
  - In addition to the audited financials, the most recent quarterly unaudited financials should be included in the offering document as even the most recent audited information can often be over a year old.
- Budget
  - The current school year budget, with comparisons to actual revenue and expenses, along with next year's budget, if developed and approved, should also be included in the disclosure document to allow the reviewer a sense of the school's most recent financial performance and how well-managed the school's budgeting process is.
- Per pupil funding levels
  - As per pupil funding represents the overwhelming majority of charter school revenue, current and historical per pupil funding levels should be detailed in the offering document. If the school receives funding based on school district spending and educates students from more than the district in which the charter school is located, the data should include funding levels from all such school districts with the percentage of students from each.

- Philanthropy
  - Any reliance on philanthropy should be disclosed since any reduction in this revenue source could negatively affect the ability of the school to meet debt service requirements. Ideally, the offering statement should detail the school's history and reliance on philanthropic sources of revenue.
- Detailed Debt Service Schedule
  - While debt service schedules are typically found in disclosure documents, a more detailed schedule with six month intervals, and a total for each fiscal year, is preferable. In addition, the disclosure document should include a description of other debt, if applicable, including short-term cash flow notes, as well as other long-term obligations, including leases that may be relevant to the school's ability to meet required debt service on the bonds. Finally, the document should offer a description of any future capital plans.

### **Legal Information**

In addition to describing the transaction's security features, the disclosure document should contain information on the following:

- State's charter school statute and education funding process
  - Because every state charter school statute is different—and those differences can be significant—each offering statement should include a detailed summary of the applicable charter school statute to give analysts and investors a sense of the key provisions that a school must adhere to, including renewal, revocation, oversight, and funding parameters. Likewise, each state has different education funding processes and these should also be fully described.
- Authorizer renewal requirements
  - Because different authorizers within a state may have different rules, each offering statement should include a summary of authorizer renewal requirements and the school's history of renewal, if applicable. The authorizer's overall statistics, e.g. number of authorized schools, number and percentage of schools closed due to non-renewal or revocation should also be disclosed.
- Charter document
  - Whenever possible, the disclosure document should include the school's actual charter so that analysts and investors have all of the school's applicable operating parameters. If the length of the document makes it burdensome, the document should be made available to investors.
- State Intercept Program
  - A number of states offer intercept programs to charter schools that enhance bondholder security. In some cases, money sufficient for bond debt service goes directly from the state to the trustee. In other cases, particularly for those schools that are paid directly by school districts, if revenue due to the charter school from the school district is not received in a timely manner, the charter school may petition the state to intercept monies owed to by the state to the school district to instead be redirected to the charter school. The details of any such intercept program should be detailed in the disclosure document. If not automatic, the frequency and reasons why the schools have had to utilize the state intercept should also be discussed.
- Litigation
  - Describe any material litigation that may affect the school's competitive position and/or finances.

### **Multi-Year Pro-forma Projections**

- Multi-year financial projections, or pro formas, are an important budgetary tool for schools and a critical underwriting component. These projections should show line item operating revenue and expense items on a cash basis together with underlying assumptions regarding enrollment and growth that are both reasonable and detailed. They should also clearly state debt service coverage, debt burden, and use of capitalized interest, if applicable. A time horizon of at least five to seven years—in addition to the budget year— is optimal from an underwriting perspective, constituting the intersection of strategic forward planning and realistic assumptions. Our research indicated that only 82% of the offering documents contained pro formas.

### **Relationship with Authorizer**

- Authorizers, of course, play a critical role in the life of a charter school. The opinion of the authorizer will determine the fate of the school and whether or not the school will receive its charter renewed. With this in mind, it is preferable for schools seeking facility financing to be able to show evidence of a positive relationship



with its authorizer. Examples of a positive relationship include a history of renewal(s) and an approval for enrollment expansion—either via additional grades or simply adding students to currently established grades.

- Ideally, an evaluative report from the school’s authorizer regarding the school’s academic performance will be available and, if so, should be included in the disclosure document to provide valuable underwriting information. In addition, a good standing letter from the school’s authorizer should be included with the offering documents.

### **School Operations**

- **School Affiliates**
  - Any affiliated entities of the charter school, including charter school management organizations and foundations, should be clearly disclosed in the offering statements to give the reader a better context of the school.
- **School Age**
  - A school’s age provides the context for all other disclosure provided as part of the offering document. It is not possible to assess enrollment trends, academic achievement progress, likelihood of charter retention, or soundness of financial position without the identification of the date the school was established clearly stated upfront in the Summary. Our research found that while the inclusion of age was fairly universal, it was not always clearly stated or easy to find.
- **Charter Expiration Date**
  - A school’s charter expiration date is a key piece of information that should be stated clearly up front in the offering statement.
- **Curriculum**
  - A school’s curriculum focus, such as language, music, or technology, should be described in the offering statement and whether the school is using Common Core standards.
- **Demographics**
  - The offering statement should also include demographic data on the student body, particularly the percentage of students who qualify for free or reduced lunches. This information puts the school in context, particularly when comparing academic performance against those of local and state medians.
- **Attendance**
  - Attendance statistics are another key underwriting criterion as quality schools typically have a consistent record of high attendance rates, i.e. well over 90%. The offering statement should disclose attendance statistics of at least three years and preferably since its inaugural year. Any material swings should be explained.
- **Competition**
  - The environment a charter school operates within is another important credit factor. Whether the school is the sole charter school in the area or one that operates in a city with a significant percentage of charter school students should be clearly described. A comprehensive list of all area schools that may compete with the charter school should be part of the offering statement. The list should include traditional district schools, other charter schools along with parochial schools, and private schools, and their current tuition rates, if applicable. In addition, the offering statement should describe school’s relationship with the local school district(s), particularly for those schools that receive per pupil funding directly from school districts.
- **Student and teacher retention**
  - High-quality schools –public or private, at the college level or K-12—typically have strong retention statistics for both students and teachers. High turnover of faculty or students is a red flag and reason to investigate such circumstances.
- **Faculty**
  - Quality teaching is likely the most important factor in student academic achievement. As such, the offering statement should describe teaching staff qualifications, along with salary ranges, bonus potential—with comparisons to local school district, along with any future compensation agreements, and union representation, if applicable. In addition, staff benefits, including any retirement programs, should also be described.
- **Grade configuration changes**
  - Any grade configuration changes should be clearly stated in the offering statement. Often successful elementary schools will apply to its authorizer to add middle school grades. Likewise, successful K-8

schools may request approval to expand to high school. These changes are credit positives. Conversely, an explanation is crucial for those schools that were once K-8 but now offer only elementary grades.

- Transportation arrangements
  - Discussion should include transportation options including who is responsible for busing costs—the school or the host school district—as well as which students are eligible for transportation.
- Insurance
  - As with all enterprise activities, proper insurance is essential to credit quality. Charter school insurance coverage should include property, casualty, general liability, professional liability, errors and omission, theft, and business interruption insurance—the latter particularly important to revenue-dependent charter schools that find themselves temporarily unable to use their facility.
- Parental involvement
  - Describe parental involvement, including whether family volunteering is required. Discuss parental involvement including the existence of a Parent Teacher Organization. Highlight any family volunteer expectations, particularly if there is a family volunteer requirement that must be met in order for a student to continue to attend the school.

#### **Secondary Market Disclosure**

- Ongoing disclosure is critical to the bond market and in order to access financing, charter school borrowers typically agree to submit comprehensive information periodically to the market via the trustee and Electronic Municipal Market Access, or EMMA. Analysts and investors use this information to conduct credit surveillance on a regular basis. Specific secondary market data generally includes financial-related information including audited financial statements, quarterly balance sheet, income statement, cash flow statement, budget, and debt service coverage, and liquidity levels, i.e. days cash on hand. Other required information include enrollment, wait list, faculty information, changes in school leadership, and material correspondence with the school's authorizer.

#### **Special Acknowledgements:**

LISC would like to thank Susan Gundersen and Nora Etienne for providing editing assistance to complete the Bond Disclosure Template.

*Disclosure Best Practice Example*

**List of transaction parties, school board and management – sourced from Piper Jaffrey**

- Typically, offering statements do not provide a complete list including school-based parties. The below is a more inclusive list of parties to the bond transaction.

Issuer  
“Sample Issuer”

Bond Counsel  
“Sample Bond Counsel” Phoenix, Arizona

Issuer’s Counsel  
“Sample Issuer’s Counsel”  
Phoenix, Arizona

Borrower  
“Sample Charter School”  
Chandler, Arizona

Borrower’s Counsel  
“Sample Issuer’s Counsel”  
Phoenix, Arizona

Charter School Governing Board  
Board Member Board Member  
Board Member

“Sample Charter School Management Company”  
Chandler, Arizona

Charter School Management Company Officials  
....., President  
....., Treasurer  
....., Chief Executive Officer  
....., Superintendent  
....., Assistant Superintendent

Borrower’s Financial Advisor “Sample Charter School Financial Advisor” Bountiful, Utah

Trustee and Paying Agent “Sample Paying Agency and Trustee” Phoenix, Arizona

Underwriter  
“Sample Underwriter” Minneapolis, Minnesota

Underwriter’s Counsel  
“Sample Underwriter’s Counsel”  
Minneapolis, Minnesota

*Disclosure Best Practice Example*

**Pictures of collateral property, including aerial photograph – sourced from Jeffries**

- It is important to have photos of the property in the offering statement for visual representation of the property



**Sample Table of Contents - sourced from Piper Jaffrey**

- The below table of contents was compiled from many different offering statements and represents a typical structure. For purposes of the Symposium, we excerpted certain sections of the offering statement that we believe required a specific type of disclosure. Those sections are bolded in the Table of Contents below and will be included in this document. The offering statement in full will be published after the Symposium taking into account any discussion during of this draft disclosure template.

**TABLE OF CONTENTS**

<b>SUMMARY INFORMATION .....</b>	<b>12</b>
<b>INTRODUCTION .....</b>	<b>17</b>
General .....	17
The Bonds .....	17
Use of Proceeds .....	17
Security for the Bonds .....	17
Redemption .....	18
Certain Risk Factors .....	18
The Borrower .....	19
<b>THE PROJECT .....</b>	<b>19</b>
<b>THE ISSUER .....</b>	<b>20</b>
<b>THE BONDS .....</b>	<b>21</b>
General .....	21
Book-Entry Only System .....	21
Transfer of Bonds .....	22
Exchange of Bonds .....	22
Redemption .....	22
Defeasance .....	25
<b>ESTIMATED SOURCES AND USES OF FUNDS .....</b>	<b>27</b>
<b>DEBT SERVICE SCHEDULE.....</b>	<b>28</b>
<b>SECURITY AND SOURCES OF PAYMENT FOR THE BONDS .....</b>	<b>30</b>
Limited Obligations of the Authority .....	30
Pledge of Payments and Other Amounts .....	30
Charter School Intercept.....	32
Assignment of Payments and Other Amounts, Loan Agreement and Deed of Trust .....	33
Revenue Fund.....	33
Capital Maintenance and Operating Fund .....	34
Allocation of Revenues .....	34
Deed of Trust of the Facility .....	35
<b>CERTAIN FINANCIAL COVENANTS OF THE BORROWER .....</b>	<b>36</b>
Days Cash on Hand .....	36
Limitations on Additional Indebtedness.....	37
Independent Consultant.....	38

<b>CHARTER SCHOOLS</b> .....	<b>38</b>
General .....	38
Chartering Authority .....	39
Elements of a Charter Petition.....	40
<b>CHARTER RENEWAL</b> .....	<b>41</b>
Petitions.....	41
Renewal Requirements.....	41
Other Grounds for Nonrenewal or Revocation: Procedure .....	42
Countywide Benefit Charter Schools .....	43
Statewide Benefit Charter Schools.....	43
Charter Revocation.....	43
Amendments to the Charter School Law.....	44
<b>STATE FUNDING OF EDUCATION</b> .....	<b>45</b>
General .....	45
Allocation of State Funding to Charter Schools.....	52
History of Per Pupil Funding.....	53
<b>ALTERNATIVE FUNDING PROCEDURES</b> .....	<b>54</b>
<b>CONSTITUTIONAL AND STATUTORY PROVISIONS</b>	
<b>AFFECTING EDUCATION REVENUES AND APPROPRIATIONS</b> .....	<b>55</b>
Limitations on Revenues .....	55
Proposition 30 .....	56
Proposed State Legislation on Charter Schools.....	57
“Sample State” Governor’s Education Reform Agenda.....	57
Future Initiatives .....	58
<b>CERTAIN RISK FACTORS</b> .....	<b>59</b>
General .....	59
Possible Offsets to State Apportionment.....	59
Reserve Account .....	60
Secondary Market .....	60
Purchases and Transfers of Bonds.....	60
Restricted to Qualified Institutional Buyers and Accredited Investors .....	60
Tax Related Issues.....	61
Factors that Could Affect the Security Interest in the Pledged Revenues .....	62
Construction Risks; Existing Leases; Seller Improvements .....	62
Limited Nature of Real Estate Appraisal.....	63
Inability or Delay in Liquidating the Facilities at an Adequate Sale Price.....	65
Bankruptcy .....	66
Factors Associated with the Borrower’s Operations .....	67
Key Management .....	69
Other Limitations on Enforceability of Remedies.....	70
Specific Risks of Charter Schools .....	71
Additional Information on Risk of Charter Non-Renewal or Revocation .....	71
No Taxing Authority/Borrower Dependence on State Payments .....	72
Failure to Achieve or Maintain Enrollment.....	73
Competition for Students.....	74
Risk of Reduction in ADA Funding.....	75
Claims and Insurance Coverage .....	75
Risk of Non-continued Philanthropy of Grants .....	75
Use of Facility .....	75
Conflict of Interest Between Borrower and Manager.....	76
Terms of Manager Agreements Shorter than Final Maturity Date of Series 2014 Bonds....	77

Maintenance of Rating .....	78
Reputational Risk .....	78
School Choice Initiatives.....	78
<b>ABSENCE OF MATERIAL LITIGATION .....</b>	<b>79</b>
The Authority .....	79
The Borrower .....	79
<b>TAX MATTERS .....</b>	<b>80</b>
Tax-Exempt Bonds.....	80
Taxable Bonds.....	81
<b>APPROVAL OF LEGALITY .....</b>	<b>82</b>
<b>RATING .....</b>	<b>83</b>
<b>CONTINUING DISCLOSURE.....</b>	<b>83</b>
<b>UNDERWRITING .....</b>	<b>83</b>
<b>MISCELLANEOUS .....</b>	<b>83</b>

## APPENDICES

### APPENDIX A

-CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT

### APPENDIX B

-HISTORIC AND PROJECTED REVENUE AND EXPENSES

### APPENDIX C

-AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR THE FISCAL YEARS ENDED  
JUNE 30, 2012, 2011, AND 2010

### APPENDIX D

-INTERIM FINANCIAL STATEMENTS

### APPENDIX E

-STATE AUTHORIZER REPORT

### APPENDIX F

-SUMMARY OF STATE CHARTER LAW

### APPENDIX G

-SUMMARY OF PRINCIPAL BOND DOCUMENTS

### APPENDIX H

-FORM OF CONTINUING DISCLOSURE AGREEMENT

### APPENDIX I

-BOOK-ENTRY ONLY SYSTEM

### APPENDIX J

-FORM OF BOND COUNSEL OPINION WITH RESPECT TO TAX-EXEMPT BONDS

### APPENDIX K

-FORM OF BOND COUNSEL OPINION WITH RESPECT TO TAXABLE BONDS

*Disclosure Best Practice Example*

**Brief up-front summary of school and dates of establishment, charter renewal and expiration – sourced from Piper Jaffrey**

- Often, school information is found in APPENDIX A, but basic information about the school and its renewal status should be in the Summary.

**SUMMARY INFORMATION**

The following is a summary of certain information contained in this “Official Statement”. The summary is not comprehensive or complete and is qualified in its entirety by reference to the complete “Official Statement” (including the Appendices hereto). This “Official Statement” speaks only as of the date shown herein, and the information herein is subject to change.

The Issuer	“Sample Issuer” (the “Issuer”), a nonprofit corporation designated as a political subdivision of “Sample State”(the “State”), is authorized by the Industrial Development Financing Act, comprised of Title 35, Chapter 5 of the “Sample State” Revised Statutes (the “Act”) to issue the Series 2014 Bonds. See “THE ISSUER” in this “Official Statement”.
The Series 2014 Bonds	The Education Revenue Bonds (“Sample School” Project- “Sample School” and “Sample School” Campuses), Series 2014, in the original aggregate principal amount of \$....., are to be issued by the Issuer pursuant to (i) the Constitution and laws of the State, particularly the Act; (ii) a resolution, as amended, adopted by the governing body of the Issuer (the “Resolution”); and (iii) an Indenture of Trust, dated as of March 1, 2014 (the “Indenture”), between the Issuer and “Sample Paying Agency and Trustee”, as trustee (the “Trustee”). See “THE SERIES 2014 BONDS” in this “Official Statement”.
Use of Proceeds	The Issuer will loan the proceeds derived from the sale of the Series 2014 Bonds to “Sample Charter School”, an “Sample State” nonprofit corporation (the “Borrower”), pursuant to the terms of a Loan Agreement, dated as of March 1, 2014 (the “Loan Agreement”), by and between the Issuer and the Borrower. Proceeds of the Series 2014 Bonds will be used by the Borrower for the purposes of: (i) financing the cost of acquiring, constructing, improving and equipping, as applicable, land and a building located at 41800 North Barnes Parkway, San Tan Valley, “Sample State” (the “Sample School” Campus”) at which the Borrower operates its school known as ““Sample School” Traditional School - “Sample School” (the “Sample School” School””, and land and a building located at 1274 East O’Neil Drive, “Sample School”, “Sample State” (the “Sample School” Campus” and, together with the “Sample School” Campus, the “Series 2014 Facilities”) at which the Borrower operates its school known as ““Sample School” Traditional School - “Sample School”” (the “Sample School” School” and, together with the “Sample School” School, the “Schools””, to be owned by the Borrower and used in connection with its charter school operations, (ii) refinancing certain equipment indebtedness of the Borrower relating to the “Sample School” Campus, (iii) funding the Debt Service Reserve Fund, and (iv) paying issuance expenses related to the Series 2014 Bonds (collectively, the “2014 Project”). See “THE SERIES 2014 FACILITIES, THE 2014 PROJECT AND THE PLAN OF FINANCE,” “SOURCES AND USES OF



FUNDS” and “APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT” in this “Official Statement”.

The Manager

“Sample Charter School Management Company” (the “Manager”), a “Sample State” limited liability company, manages the Schools for the Borrower. See “APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT” in this “Official Statement”.

Security

The Series 2014 Bonds are limited obligations of the Issuer as described under “Limited Obligations” below and in the body of this “Official Statement”. Under the Loan Agreement, the Borrower is obligated absolutely and unconditionally to pay amounts sufficient to provide for the payment of the principal of, premium, if any, and interest on the Series 2014 Bonds as well as: (i) amounts payable pursuant to the Loan Agreement; (ii) the Deed of Trust, Security Agreement, Assignment of Rents and Leases, and Fixture Filing, dated as of March 1, 2014 (“the “Deed of Trust”), from the Borrower, as trustor, to the Trustee, as beneficiary, and First American Title Insurance Company, as trustee; and (iii) certain funds created in the Indenture. Under the Loan Agreement and the promissory note given pursuant thereto, the Borrower will be required to make Loan Payments from Pledged Revenues, in amounts sufficient to pay debt service on the Series 2014 Bonds, plus certain other payments. See “THE SERIES 2014 BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS” in this “Official Statement”. Payments received by the Issuer from the Borrower under the Loan Agreement are expected to be paid primarily from the Pledged Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS” in this “Official Statement”. A Debt Service Reserve Fund is also established pursuant to the Indenture and will be held by the Trustee with an account therein allocable to the Series 2014 Bonds (the “Series 2014 Account”). The Borrower will deposit \$2,606,012.50 from proceeds of the Series 2014 Bonds to the Series 2014 Account of the Debt Service Reserve Fund in order to satisfy the Debt Service Reserve Fund Requirement for the Series 2014 Bonds. See “APPENDIX G - SUMMARY OF PRINCIPAL BOND DOCUMENTS” in this “Official Statement”.

Limited Obligations

The Series 2014 Bonds are limited obligations of the Issuer payable solely from the Loan Payments to be made by the Borrower and other funds pledged therefore under the Indenture, do not give rise to a general obligation or general liability of the Issuer or a charge against its general credit and shall never constitute nor give rise to a pecuniary liability of the Issuer. The Issuer does not have any taxing power. The Series 2014 Bonds do not constitute a debt, moral obligation, liability or loan of credit or a pledge of the full faith and credit or taxing power of the Town of Florence, the State or of any political subdivision thereof. The obligations of the Borrower under the Loan Agreement are a general credit pledge of the Borrower, provided, however that the Borrower does not have taxing power and does not have the ability to charge fees to its students in the event that revenues of the Borrower are not sufficient to pay operations and debt service on the Series 2014 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 BONDS” in this “Official Statement”.

Risk Factors

Purchase of the Series 2014 Bonds involves a high degree of risk. A prospective purchaser of the Series 2014 Bonds is advised to read this entire “Official Statement” including the Appendices attached hereto in their entirety, particularly the section entitled “BONDHOLDERS’ RISKS” herein, for a discussion of certain risk factors, which should be considered in connection with an investment in the Series 2014 Bonds.

Purchase & Transfer Restrictions	Unless the Issuer and the Trustee have received an Investment Grade Notice, the Series 2014 Bonds may be purchased only by (i) a Qualified Institutional Buyer as defined in Rule 144A promulgated under the Securities Act of 1933, as amended (the “Securities Act”), or (ii) an “accredited investor” within the meaning of Rule 501 of Regulation D promulgated under the Securities Act. The purchase restrictions described in this paragraph apply to initial purchases of the Series 2014 Bonds and, unless the Trustee and the Issuer have received an Investment Grade Notice, to all subsequent sales or transfers of the Series 2014 Bonds. See “THE SERIES 2014 BONDS - Restrictions on Registration and Transfer” in this “Official Statement”.
Optional Redemption	The Series 2014 Bonds are subject to optional redemption, in whole or in part, by the Borrower commencing on July 1, 2023 or any day thereafter, at a redemption price equal to the principal amount of the Series 2014 Bonds to be redeemed plus accrued interest to the redemption date. See “THE SERIES 2014 BONDS- Redemption of Series 2014 Bonds Prior to Maturity” in this “Official Statement”. The Series 2014 Bonds are also subject to optional redemption at the principal amount, plus accrued interest upon the occurrence of certain events of damage, destruction or condemnation.
Mandatory Redemption	The Series 2014 Bonds are subject to special mandatory redemption in the event of a Determination of Taxability, in whole, at a redemption price equal to the sum of the principal amount of the Series 2014 Bonds, plus accrued interest on the Series 2014 Bonds to the date of redemption, plus a three percent (3%) redemption premium on the outstanding principal amount of the Series 2014 Bonds. The Series 2014 Bonds are also subject to mandatory sinking fund redemption as set forth herein. See “THE SERIES 2014 BONDS - Redemption of Series 2014 Bonds Prior to Maturity” in this Official Statement.
Exchange & Transfer	While the Series 2014 Bonds remain in book-entry only form, transfer of ownership by Beneficial Owners may be made as described in “THE SERIES 2014 BONDS” and “APPENDIX I - BOOK-ENTRY ONLY SYSTEM” in this Official Statement.
Payment	Interest accrues on the Series 2014 Bonds at the rates set forth on the inside front cover of this Official Statement from their date of issuance and is payable on January 1 and July 1 of each year, commencing July 1, 2014 (each an “Interest Payment Date”), by check or draft mailed on such dates to the persons who were the registered owners of the Series 2014 Bonds at his or her address as it last appears on registration records kept by the Trustee as of the close of business on the 15 <sup>th</sup> of the day of the month immediately preceding the applicable Interest Payment Date. Provided, however, that any registered owner of \$500,000 or more aggregate principal amount of Series 2014 Bonds outstanding may receive payment of interest by wire transfer upon proper instruction to the Trustee as provided in the Indenture. The Series 2014 Bonds mature as set forth on the inside front cover of this Limited Offering Memorandum and the principal of the Series 2014 Bonds is payable as described under the heading “THE SERIES 2014 BONDS- Interest; Maturity; Payment” and “THE SERIES 2014 BONDS - Redemption of Series 2014 Bonds Prior to Maturity - <i>Mandatory Sinking Fund Redemption</i> ” in this “Official Statement”. Principal, and premium, if any, on the Series 2014 Bonds will be payable at the designated corporate trust office of the Trustee.
Form	The Series 2014 Bonds will be registered under a book-entry system in the name of The Depository Trust Company (“DTC”) or its nominees. The Series 2014 Bonds will be issued in minimum denominations of \$25,000 or any integral multiples of \$5,000 in excess thereof (“Authorized Denominations”). In the event that the Trustee and the Issuer receive an Investment Grade Notice in the future, Authorized Denominations will be reduced to \$5,000 or any multiple thereof.

Tax Status	In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2014 Bonds is excludable from gross income for federal income tax purposes. Interest on the Series 2014 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel is further of the opinion that interest on the Series 2014 Bonds is exempt from “Sample State” state income tax. No opinion is expressed regarding other federal tax consequences arising with respect to the Series 2014 Bonds. See “TAX MATTERS” and “APPENDIX J - FORM OF BOND COUNSEL OPINION WITH RESPECT TO TAX-EXEMPT BONDS” in this “Official Statement”.
Continuing Disclosure	Pursuant to the requirements of Securities and Exchange Commission Rule 15c2-12 (17 CFR Part 240, § 240.15c2-12) (the “Rule”), the Borrower has agreed for the benefit of the Registered Owners and Beneficial Owners of the Series 2014 Bonds to provide certain financial information, other operating data and notices of material events. See “CONTINUING DISCLOSURE,” and “APPENDIX H - FORM OF CONTINUING DISCLOSURE AGREEMENT” in this “Official Statement”.
Delivery Information	The Series 2014 Bonds are offered when, as, and if issued by the Issuer and accepted by the Underwriter, subject to prior sale and the approving legal opinion of Bond Counsel and certain other conditions. It is expected that delivery of the Series 2014 Bonds will be made on or about March 28, 2014 through the facilities of DTC in New York, New York, against payment therefore.
Agents & Advisors	“Sample Bond Counsel”, Phoenix, Arizona, is acting as Bond Counsel. Certain legal matters will be passed upon for the Issuer by its counsel, “Sample Issuer’s Counsel”, Phoenix, Arizona, and for the Borrower by its counsel, “Sample Borrower’s Counsel”, Phoenix, Arizona. “Sample Underwriter”, Minneapolis, Minnesota will serve as the Underwriter for the Series 2014 Bonds. See “UNDERWRITING” in this “Official Statement”. Certain legal matters will be passed upon for the Underwriter by its counsel, “Sample Underwriter’s Counsel”, Minneapolis, Minnesota. “Sample Paying Agency and Trustee”, Phoenix, Arizona, will serve as the Trustee for the Series 2014 Bonds. Providence Financial Company, LLC, Bountiful, Utah, is acting as financial advisor to the Borrower. Certain fees that are payable with respect to the Series 2014 Bonds to various counsel, the Underwriter, the Trustee, and “Sample Financial Advisor” are contingent upon the issuance and delivery of the Series 2014 Bonds. See also “LEGAL MATTERS” and “RELATIONSHIPS AMONG THE PARTIES” in this “Official Statement”.
Additional Information	The summaries of or references to constitutional provisions, statutes, resolutions, agreements, contracts, financial statements, reports, publications and other documents or compilations of data or information set forth in this Limited Offering Memorandum do not purport to be complete statements of the provisions of the items summarized or referred to and are qualified in their entirety by the actual provisions of such items, copies of which are either publicly available or available upon request and the payment of a reasonable copying, mailing and handling charge from the Borrower, 3201 South Gilbert Road, Building A, Chandler, “Sample State” 85286, (480) 270-5438) or the Trustee, “Sample Trustee”: National Bank, 6001 North 24 <sup>th</sup> Street, Phoenix, AZ 85016; Attn: Corporate Trust Services.

Audited &  
Unaudited  
Interim Financial  
Statements

The Borrower's audited financial statements for the fiscal years ended June 30, 2012 and 2011 are included in this Limited Offering Memorandum as APPENDIX C. The financial statements of the Borrower as of and for the year ended June 30, 2012, have been audited by "Sample Auditor", independent public accountants, as stated in their report appearing herein. The financial statements of the Borrower dated June 30, 2011, have been audited by "Sample Auditor", as stated in his report appearing herein. See "AUDITED FINANCIAL STATEMENTS OF THE BORROWER" and "APPENDIX C - AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011 AND 2010" in this Official Statement.

The unaudited financial statements of the Borrower for the six-month period ended December 31, 2012 are contained in APPENDIX D. The interim financial statements contained in APPENDIX D have been prepared by the Borrower and the Manager and have not been audited, reviewed or examined by any independent accounting firm. See "UNAUDITED INTERIM FINANCIAL STATEMENTS OF THE BORROWER" and "APPENDIX D - INTERIM FINANCIAL STATEMENTS" in this "Official Statement".

Projected  
Financial  
Statements

The Budget Projections (the "Budget Projections") included in this "Official Statement" as APPENDIX B are a projection of the future financial performance of the Borrower based upon certain assumptions made by the Manager and contained therein. No assurances can be given that the operations of the Borrower will equal or exceed the projected future financial performance set forth in the Budget Projections. The Budget Projections are for the five fiscal years of the Borrower ending June 30, 2014 through June 30, 2017. The Budget Projections in APPENDIX B have not been audited, reviewed or examined by an independent accounting firm.

## INTRODUCTION

### General

This “Official Statement”, including the cover page and Appendices hereto (the “Official Statement”), is provided to furnish information with respect to the sale and delivery of the “Sample State” School Finance Authority Charter School Revenue Bonds (“Sample Charter School” Project), Series 2014A, in the aggregate principal amount of \$..... (the “Series 2014A Bonds” or the “Tax- Exempt Bonds”) and the “Sample State” School Finance Authority Charter School Revenue Bonds (“Sample Charter School” Project), Series 2014B (Taxable), in the aggregate principal amount of \$..... (the “Series 2014B Bonds” or the “Taxable Bonds” and, together with the Series 2014A Bonds, the “Bonds”) issued by the “Sample State” School Finance Authority (the “Authority”).

*Changes since Preliminary “Official Statement”.* Since the date of the Preliminary “Official Statement”, disclosure has been added regarding the proposed fiscal year 2013-14 budget for the State of “Sample State” (see “State Funding of Education- General-Proposed 2013-14 Budget”).

### The Bonds

The Bonds will be issued pursuant to Chapter 18 (commencing with Section 17170) of Part 10 of Division 1 of Title 1 of the Education Code of the State of “Sample State” (the “Act”) and an Indenture, dated as of February 1, 2014 (the “Indenture”), by and between the Authority and “Sample Trustee”, National Association, Los Angeles, “Sample State”, as trustee (the “Trustee”). The Bonds will bear interest on April 1 and October 1 of each year, commencing October 1, 2014 (each, an “Interest Payment Date”) and will be subject to optional, mandatory and extraordinary redemption prior to maturity as set forth under “THE BONDS - Redemption” herein. The proceeds of the Bonds will be loaned to “Sample Charter School” Charter School, Inc., a “Sample State” nonprofit, public benefit corporation and charter school (the “Borrower”), pursuant to a Loan Agreement, dated as of February 1, 2014 (the “Loan Agreement”), by and between the Authority and the Borrower. See “THE BONDS” herein.

The Bonds will be issued in initial minimum denominations of \$25,000 and any integral multiple of \$5,000 in excess thereof and in fully registered form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, “Sample State” (“DTC”) and beneficial ownership interests in the Bonds are to be sold (including secondary market transactions) only to Qualified Institutional Buyers and Accredited Investors. The Indenture contains provisions limiting transfers of the Bonds and beneficial ownership interests in the Bonds to Qualified Institutional Buyers and Accredited Investors. The face of each Bond will contain a legend indicating that such Bond is subject to the transfer restrictions set forth in the Indenture.

### Use of Proceeds

The proceeds of the Bonds will be used to (i) finance certain costs of the acquisition, construction, improvement, equipping and furnishing of certain public charter school facilities; (ii) reimburse the Borrower for Project costs; (iii) fund capitalized interest on the Bonds; (iv) fund a debt service reserve fund; and (v) pay the costs of issuance for the Bonds. For more information, see “APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT” and “THE PROJECT” herein.

### Security for the Bonds

The Bonds will be payable from and secured by Payments (as defined below) under the Indenture, consisting primarily of Loan Repayments under the Loan Agreement. The obligations of the Borrower under the Loan Agreement are secured by the Gross Revenues (as defined below) and by the Deed of Trust (as defined below) on the Facility.

As further security for the Bonds, in connection with the issuance of the Bonds, the Borrower will provide instructions to the State Controller’s Office (the “State Controller”) to make an apportionment to the Trustee in amounts and on dates provided in a written notice (the “Intercept Notice”) sufficient to repay the Bonds and pay

necessary and incidental costs. Funds received by the Trustee pursuant to the Intercept described in clause (i) of the definition of Payments will be held in trust and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture, including if necessary, the payment of debt service on the Bonds. Under state law, no party, including the Borrower or any of its creditors will have any claim to the money apportioned or to be apportioned to the Trustee by the State Controller pursuant to the Intercept. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Intercept” and “RISK FACTORS-Bankruptcy” below.

The Bonds are limited obligations of the Authority. The Authority is not obligated to advance any moneys derived from any source other than Payments (as defined below) and other assets pledged under the Indenture, whether for the payment of the principal or redemption price or interest with respect to the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

For detailed information regarding the Borrower, see “APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT.”

### **Redemption**

The Bonds will be subject to extraordinary optional redemption, optional redemption and to mandatory sinking fund redemption as described below under “THE BONDS-Redemption.”

### **Certain Risk Factors**

The Bonds may not be a suitable investment for all investors. Prospective purchasers of the Bonds should read this entire “Official Statement”, including the appendices and the information under the section “CERTAIN RISK FACTORS” before making an investment in the Bonds.

## **THE BORROWER**

“Sample Charter School” is a “Sample State” State public charter high school located in District #10 (The Bronx). “Sample Charter School” received initial authorization from the New York City Department of Education (“DOE”) in December 2005 and the “Sample State” State Board of Regents voted to grant “Sample Charter School” its charter on January 9, 2006. The charter for “Sample Charter School” was renewed for a five year period on January 11, 2011. For additional information about “Sample Charter School”, see APPENDIX A and APPENDIX B hereto.

## **THE PROJECT**

The Project includes the acquisition of an approximately 3.63-acre site at 4096 Calle Platino Oceanside, “Sample State”, on which the charter school facilities will be located (the “Property”) and acquisition, construction, expansion, rehabilitation, renovation, remodeling, furnishing and equipping of certain charter school educational facilities to be located (collectively the “Facility”), which will constitute the campus of the Borrower upon completion thereof.

**Summary of Issuer – sourced from TD Securities**

**THE ISSUER**

The Issuer, created in 2011, is a not-for-profit local development corporation organized pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of “Sample State”(the “State”) at the direction of the Mayor of The City of “Sample City”(the “City”). The Issuer is not an agency of State or City government and is not subject to administrative direction by any department, commission, board or agency of the State or of the City. The Issuer is authorized by the Not-For-Profit Corporation Law of the State and the Issuer’s Certificate of Incorporation to promote community and economic development, and the creation of jobs in the non-profit and profit sectors for residents of the City by developing and providing programs for not-for-profit institutions, manufacturing and industrial businesses and other entities to access low interest tax- exempt and non-tax-exempt financing for their eligible projects.

The Issuer has offered and plans to offer other obligations from time to time to finance projects for other not-for-profit institutions and, under certain circumstances, manufacturing and industrial businesses, with respect to facilities located in the City. Such obligations have been and will be issued pursuant to and secured by instruments separate and apart from the Indenture.

The Issuer has not prepared or assisted in the preparation of this Official Statement, except for statements under the sections captioned “THE ISSUER” and “ABSENCE OF LITIGATION- THE ISSUER” and, except as aforesaid, the Issuer is not responsible for any statements made in this Official Statement. Except for the execution and delivery of documents required to effect the issuance of the Series 2014 Bonds, the Issuer has not otherwise assisted in the public offer, sale or distribution of the Series 2014 Bonds. Accordingly, except as aforesaid, the Issuer disclaims responsibility for the disclosures set forth in this Official Statement or otherwise made in connection with the offer, sale and distribution of the Series 2014 Bonds. The Series 2014 Bonds are special limited revenue obligations of the Issuer payable solely from the payments made by “Sample Charter School” under the Loan Agreement and the Promissory Note and from the Trust Estate as described in the Indenture. Neither the Issuer nor its directors or officers are personally liable with respect to the Series 2014 Bonds. Accordingly, no financial information with respect to the Issuer or its directors or officers has been included in this Official Statement



## THE BONDS

*The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Indenture for all of the provisions relating to the Bonds. The discussion herein is qualified by such reference.*

### General

The Bonds are being issued pursuant to the Indenture in the aggregate principal amount set forth on the cover of this Official Statement. The Bonds will initially be delivered as registered Bonds in minimum denominations of \$25,000 and any integral multiple of \$5,000 in excess thereof (“Authorized Denominations”), and will be transferable and exchangeable only as set forth in the Indenture and as described herein. The Bonds will be dated the date of issuance and will bear interest at the rates set forth on the inside cover page hereof from their dated date. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable in arrears on each Interest Payment Date. The Bonds will mature in the amounts and in each of the years as set forth on the inside cover page hereof.

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of DTC, and will be evidenced by one Bond for each maturity in the total aggregate principal amount of the Bonds of such maturity. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Indenture. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the bondholders, holders or registered owners will mean Cede & Co. as aforesaid and will not mean the “beneficial owners” of the Bonds.

The principal of and interest on the Bonds will be payable in lawful money of the United States of America upon surrender at the principal corporate trust office of the Trustee. The interest on any Bond will be payable to the person whose name appears on the registration books of the Trustee as the registered owner thereof as of the close of business on the fifteenth day of the calendar month next preceding the Interest Payment Date (the “Record Date”), such interest to be paid by check mailed by first class mail, postage prepaid, on the Interest Payment Date, to the registered owner at his or her address as it appears on such registration books. Notwithstanding the foregoing, however, any holder of all the Bonds and any holder of \$1,000,000 or more in an aggregate principal amount of the Bonds will be entitled to receive payments of interest on the Bonds held by it by wire transfer of immediately available funds to such bank or trust company located within the United States of America as such other holder will designate in writing to the Trustee by the first Record Date for such payment. So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable in same day funds by the Trustee to Cede & Co., as nominee for DTC.

Any interest not punctually paid or duly provided for will thereafter cease to be payable to the bondholder on such Record Date and will be paid to the person in whose name the Bond is registered at the close of business on the date established by the Trustee pursuant to the Indenture as a record date for the payment of defaulted interest on the Bonds (the “Special Record Date”). The Special Record Date will be fixed by the Trustee, notice thereof being given to the bondholders not less than 10 days prior to such Special Record Date.

### Book Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities without coupons in Authorized Denominations. The Bonds will be 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 certificate will be issued for the Bonds set forth on the inside cover of this “Official Statement”, and will be deposited with DTC. For additional information regarding DTC and its book-entry only system, see “APPENDIX I - BOOK-ENTRY ONLY SYSTEM” herein.

## **Transfer of Bonds**

So long as the Bonds are subject to a system of book-entry only transfers, beneficial ownership interests in the Bonds may not be purchased by, or transferred to, any person except a Qualified Institutional Buyer or Accredited Investor. During such time, the Trustee may rely upon any representation from a DTC Participant that a transferee of a beneficial ownership interest in the Bonds is a Qualified Institutional Buyer or Accredited Investor. The Trustee shall not be required to obtain such representations as a condition precedent to a transfer of ownership of a beneficial ownership interest in the Bonds. During any period of time when the Bonds are not subject to a system of book-entry only transfers, any Bond may be transferred upon the books kept by the Trustee, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of any such Bond for cancellation, accompanied by delivery of a written instrument of transfer. The Trustee will conclusively rely upon such written instrument of transfer as evidence that the transferee is a Qualified Institutional Buyer or Accredited Investor, each as defined in the Indenture. Whenever any Bond or Bonds shall be so tendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds, of the same series and maturity and for a like aggregate principal amount of Authorized Denominations. The Trustee will require the Holder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. No registration of transfers of Bonds shall be required to be made during the period established by the Trustee for selection of Bonds for redemption and after a Bond has been selected for redemption. The Bonds are subject to certain transfer restrictions under the Indenture, as described herein under “TRANSFER RESTRICTIONS.”

## **Exchange of Bonds**

Bonds may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of the Bonds of the same series and maturity of other Authorized Denominations. The Trustee will require the payment by the holder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there will be no other charge to any holder for any such exchange.

## **Redemption**

*Optional Redemption.* The Series 2014A Bonds are subject to redemption prior to their respective stated maturities, at the option of the Borrower, in whole or in part on any date on or after October 1, 2022, at a redemption price equal to the principal amount of the Series 2014A Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

The Series 2014B Bonds are not subject to optional redemption prior to their respective stated maturities.

*Extraordinary Optional Redemption from Insurance and Condemnation Proceeds.* The Bonds are subject to redemption prior to their stated maturity, at the option of the Borrower as a whole or in part on any date from moneys required to be transferred from the Insurance and Condemnation Proceeds Fund to the Special Redemption Account at a redemption price equal to the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

*Extraordinary Optional Redemption due to Change of Use.* The Bonds are subject to redemption prior to their stated maturity, at the option of the Borrower as a whole or in part on any date from Loan prepayments made by the Borrower in connection with the cessation of operation of a charter school at the Facility at a redemption price equal to 103% of the principal amount thereof together with interest accrued thereon to the date fixed for redemption.

*Mandatory Sinking Fund Redemption.* The Series 2014A Term Bonds maturing October 1, 2022, October 1, 2033 and October 1, 2042 are subject to redemption prior to their stated maturities in part, by lot, from Mandatory Sinking Account Payments established pursuant to the Indenture on each October 1 on or after October 1, 2015, October 1, 2023 and October 1, 2034, respectively, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium. The Series 2014A Term Bonds will be

redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Series 2014A Term Bonds Maturing October 1, 2022		
Mandatory Sinking Account Payment Date (October 1)		Principal Amount
2015		\$80,000
2016		80,000
2017		250,000
2018		260,000
2019		275,000
2020		290,000
2021		305,000
2022 <sup>†</sup>		320,000

<sup>†</sup>Maturity Date.

Series 2014A Term Bonds Maturing October 1, 2033		
Mandatory Sinking Account Payment Date (October 1)		Principal Amount
2023		\$335,000
2024		350,000
2025		370,000
2026		390,000
2027		405,000
2028		425,000
2029		450,000
2030		470,000
2031		495,000
2032		520,000
2033 <sup>†</sup>		545,000

<sup>†</sup>Maturity Date.

Series 2014A Term Bonds Maturing October 1, 2042		
Mandatory Sinking Account Payment Date (October 1)		Principal Amount
2034		\$575,000
2035		600,000
2036		630,000
2037		660,000
2038		695,000
2039		730,000
2040		765,000
2041		805,000
2042 <sup>†</sup>		1,780,000

<sup>†</sup>Maturity Date.

The Series 2014B Term Bonds maturing October 1, 2016 are subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established pursuant to the Indenture on each October 1 on or after October 1, 2015, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium. The Series 2014B Term Bonds will be redeemed (or paid at

maturity, as the case may be) by application of Mandatory Sinking Account Payments in the following amounts and on the following dates:

Series 2014B Term Bonds Maturing  
October 1, 2016

Mandatory Sinking Account Payment Date (October 1)	Principal Amount
2015	\$145,000
2016 <sup>†</sup>	155,000

<sup>†</sup>Maturity Date.

*Notice of Redemption.* The Borrower will give notice of redemption to the Trustee not less than 30 days prior to the redemption date. Notice of redemption of any Bonds will be given by the Trustee upon the written request of the Borrower. Notice of any redemption of Bonds will be mailed postage prepaid, not less than 20 nor more than 60 Days prior to the redemption date (i) by first class mail to the respective holders thereof at the addresses appearing on the Bond registration books described in the Indenture, and (ii) as may be further required in accordance with the Continuing Disclosure Agreement. Each notice of redemption will contain all of the following information: (a) the date of such notice; (b) the name of the Bonds and the date of issue of the Bonds; (c) the redemption date; (d) the redemption price, if available; (e) the dates of maturity of the Bonds to be redeemed; (f) (if less than all of the Bonds of any maturity are to be redeemed) the distinctive numbers of the Bonds of each maturity to be redeemed; (g) (in the case of Bonds redeemed in part only) the respective portions of the principal amount of the Bonds of each maturity to be redeemed; (h) the CUSIP number, if any, of each maturity of Bonds; (i) a statement that such Bonds must be surrendered by the holders at the principal corporate trust office of the Trustee, or at such other place or places designated by the Trustee; and (j) notice that further interest on such Bonds, if any, will not accrue from and after the designated redemption date.

Such redemption notices may state that no representation is made as to the accuracy or correctness of the CUSIP numbers provided therein or on the Bonds.

Such redemption notices may also state that any such redemption is conditioned upon the availability of sufficient moneys to pay the full redemption price of the affected Bonds on the redemption date; and, if such condition is not met, the notice of redemption will be cancelled and of no further effect.

*Effect of Notice.* A certificate of the Trustee or the Borrower that notice of call and redemption has been given to holders and as may be further required in the Continuing Disclosure Agreement as provided in the Indenture will be conclusive as against all parties. The actual receipt by the holder of any Bond or any other party of notice of redemption will not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, will not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest, if any, on the date fixed for redemption.

When notice of redemption has been given substantially as provided for herein, and when the redemption price of the Bonds called for redemption is set aside for the purpose as described in the Indenture, the Bonds designated for redemption will become due and payable on the specified redemption date and interest, if any, will cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds will be redeemed and paid at the redemption price thereof out of the money provided therefor. The holders of such Bonds so called for redemption after such redemption date will look for the payment of such Bonds and the redemption premium thereon, if any, only to the escrow fund established for such purpose. All Bonds redeemed will be cancelled therewith by the Trustee and will not be redelivered.

*Right to Rescind Notice.* In the event that the Borrower has cured the conditions that caused the Bonds to be subject to extraordinary optional redemption, the Borrower may rescind any special redemption and notice thereof on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to

the holders of the Bonds so called for redemption, with a copy to the Trustee. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the Holder of any Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

*Funds for Redemption.* Prior to or on the redemption date of any Bonds there will be available in the special reserve account of the Borrower, or held in trust for such purpose as provided by law, monies for the purpose and sufficient to redeem, at the premiums payable as in the notice provided, the Bonds designated in said notice of redemption. Such monies so set aside in the special reserve account or in the escrow fund established for such purpose will be applied on or after the redemption date solely for payment of principal of and premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds, provided that all monies in the special reserve account of the Borrower will be used for the purposes established and permitted by law. Any interest due on or prior to the redemption date will be paid from the special reserve account of the Borrower, unless otherwise provided for to be paid from an escrow fund established for such purpose. If, after all of the Bonds of a series have been redeemed and cancelled or paid and cancelled, there are monies remaining in the special reserve account of the Borrower or otherwise held in trust for the payment of redemption price of the Bonds of such series, said monies will be held in or returned or transferred to the special reserve account of the Borrower for payment of any Outstanding Bonds of the Borrower payable from said fund; provided, however, that if said monies are part of the proceeds of refunding Bonds of the Borrower, said monies will be transferred to the fund created for the payment of principal of and interest on such Bonds. If no such refunding Bonds of the Borrower are at such time Outstanding, said monies will be transferred to the general fund of the Borrower as provided and permitted by law.

*Selection of Bonds for Redemption.* When any redemption is made pursuant to any of the provisions of the Indenture and less than all of the Outstanding Bonds of a series are to be redeemed, the Trustee will select the Bonds to be redeemed pro-rata among maturities and the Mandatory Sinking Fund Payments will be reduced pro-rata. In no event will Bonds be redeemed in amounts other than whole multiples of authorized denominations. For purposes of redeeming Bonds in denominations greater than minimum authorized denominations, the Trustee will assign to such Bonds a distinctive number for each such principal amount and, in selecting Bonds for redemption by lot, will treat such amounts as separate Bonds. The Trustee will promptly notify the Authority in writing of the numbers of the Bonds selected for redemption.

“Outstanding” under the Indenture means all Bonds theretofore, or thereupon being, authenticated and delivered to the Trustee under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority will have been discharged in accordance with the Indenture; and (c) Bonds for the transfer or exchange of which, or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture.

## **Defeasance**

*Discharge of Indenture.* Bonds may be paid by the Borrower in any of the following ways, provided that the Borrower also pays or causes to be paid any other sums payable under the Indenture by the Authority: (a) by paying or causing to be paid the principal of and interest on the Bonds Outstanding as and when the same become due and payable; (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem Bonds Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all Bonds Outstanding.

If the Borrower pays or causes to be paid all Bonds then Outstanding as provided above and also pays or causes to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Borrower, and notwithstanding that any Bonds will not have been surrendered for payment, the Indenture and the pledge of Payments made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture will cease, terminate, become void and be completely discharged and satisfied, except as provided in the Indenture. In such event, upon request of the Borrower, the Trustee will cause an

accounting for such period or periods as may be requested by the Authority and the Borrower to be prepared and filed with the Authority and the Borrower and will execute and deliver to the Authority and the Borrower all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the Borrower all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment of Bonds not theretofore surrendered for such payment and which are not required for the payment of fees and expenses of the Trustee.

*Discharge of Liability on Bonds.* Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay any Outstanding Bond, whether upon or prior to its maturity, then all liability of the Authority in respect of such Bond will cease, terminate and be completely discharged, except only that thereafter the holder thereof will be entitled to payment of the principal of and interest on such Bond by the Authority, and the Authority will remain liable for such payment but only out of the money or securities deposited with the Trustee as aforesaid for its payment; provided further, however, that the provisions of "Payment of Bonds after Discharge of Indenture" hereinafter will apply in all events.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

*Deposit of Money or Securities with Trustee.* Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the amount necessary to pay any Bonds, such amount (which may include money or securities held by the Trustee in the funds established pursuant to the Indenture) will be equal (taking into account income which will accrue from the investment thereof on the date of deposit of such funds but without taking into account any income from the subsequent reinvestment thereof) to the principal amount of such Bonds and all unpaid interest thereon to maturity, and will be: (a) lawful money of the United States of America; or (b) noncallable bonds, bills and bonds issued by the Department of the Treasury (including without limitation (1) obligations issued or held in book-entry form on the books of the Department of the Treasury and (2) the interest component of Resolution Funding Corporation strips for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form), United States Treasury Obligations State and Local Government Series and Zero Coupon United States Treasury Bonds; provided, in each case, that the Trustee will have been irrevocably instructed (by the terms of the Indenture or by request of the Borrower) to apply such money to the payment of such principal of and interest on such Bonds and provided, further, that the Authority and the Trustee will have received (i) an Opinion of Bond Counsel to the effect that such deposit will not cause interest on the Tax Exempt Bonds to be included in the gross income of the holder thereof for federal income tax purposes and that the Bonds to be discharged are no longer Outstanding; and (ii) a verification report of a firm of certified public accountants or other financial services firm acceptable to the Authority verifying that the money or securities so deposited or held together with earnings thereon will be sufficient to make all payments of principal of and interest on the Bonds to be discharged to and including their maturity date.

*Payment of Bonds after Discharge of Indenture.* Notwithstanding any provision of the Indenture, and subject to applicable escheat laws, any moneys held by the Trustee in trust for the payment of the principal of or interest on any Bonds and remaining unclaimed for one year after the principal of all the Outstanding Bonds has become due and payable (whether at maturity or by declaration as provided in the Indenture), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, will be repaid to the Borrower free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Borrower as aforesaid, the Trustee may (at the expense of the Borrower) first mail to the holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Trustee, a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Borrower of the moneys held for the payment thereof.

*Disclosure Best Practice Example*

**Detailed Sources and Uses Chart that includes Underwriter's Discount**

- The below table of sources and uses is more comprehensive than standard formats and includes the underwriter's discount.

**ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and application of funds, inclusive of the proceeds of issuance of the Bonds, required in connection with the Project are anticipated to be, as follows:

**Summary of Estimated Sources and Application of Funds**

	Series 2012	Series 2012B	Issue Summary
<b>SOURCES OF FUNDS</b>			
Par Amount of Bonds	\$ 17,125,000.00	\$ 1,480,000.00	\$ 18,605,000.00
Accrued Interest	<u>11,659.17</u>	<u>1,480.00</u>	<u>13,139.17</u>
<b>TOTAL SOURCES</b>	<b>\$ 17,136,659.11</b>	<b>\$ 1,481,480.00</b>	<b>\$ 18,618,139.17</b>
<b>USES OF FUNDS</b>			
Deposit to Project Fund	\$ 14,495,108.00	\$ 235,000.00	\$ 14,730,108.00
Deposit to Reserve Fund	1,241,200.00	145,476.60	1,386,676.60
Costs of Issuance		728,025.50	728,025.50
Total Underwriter's Discount	302,500.00	320,187.50	622,687.50
Original Issue Discount	560,111.50	25,234.00	585,345.50
Equipment Acquisition	300,000.00		300,000.00
Deposit to the Bond Fund for	179,768.41	25,900.00	205,668.41
Capitalized Interest			
Project Costs Relating to the Ground	46,000.00		46,000.00
Lease			
Deposit to Bond Fund for Accrued	11,659.17	1,480.00	13,139.17
Interest			
Rounding Amount	<u>312.09</u>	<u>176.40</u>	<u>488.49</u>
<b>TOTAL USES</b>	<b>\$ 17,136,659.17</b>	<b>\$ 1,481,480.00</b>	<b>\$ 18,618,139.17</b>

**Detailed Debt Service Schedule including Semi-Annual and Annual Totals**

<b>Table 1</b>					
<b>Period Ending</b>	<b>Principal</b>	<b>Rate</b>	<b>Interest</b>	<b>Debt Service</b>	<b>Annual Debt Service</b>
10/22/2013					
12/1/2013			\$171,141.04	\$171,141.04	
6/1/2014			513,423.13	513,423.13	
6/30/2014					\$684,564.17
12/1/2014			513,423.13	513,423.13	
6/1/2015			513,423.13	513,423.13	
6/30/2015					1,026,846.26
12/1/2015			513,423.13	513,423.13	
6/1/2016	\$445,000	2.75%	513,423.13	958,423.13	
6/30/2016					1,471,846.26
12/1/2016			507,304.38	507,304.38	
6/1/2017	460,000	2.5	507,304.38	967,304.38	
6/30/2017					1,474,608.76
12/1/2017			501,554.38	501,554.38	
6/1/2018	470,000	2.75	501,554.38	971,554.38	
6/30/2018					1,473,108.76
12/1/2018			495,091.88	495,091.88	
6/1/2019	485,000	3	495,091.88	980,091.88	
6/30/2019					1,475,183.76
12/1/2019			487,816.88	487,816.88	
6/1/2020	495,000	3.375	487,816.88	982,816.88	
6/30/2020					1,470,633.76
12/1/2020			479,463.75	479,463.75	
6/1/2021	515,000	3.3	479,463.75	994,463.75	
6/30/2021					1,473,927.50
12/1/2021			470,966.25	470,966.25	
6/1/2022	530,000	4	470,966.25	1,000,966.25	
6/30/2022					1,471,932.50
12/1/2022			460,366.25	460,366.25	
6/1/2023	550,000	3.7	460,366.25	1,010,366.25	
6/30/2023					1,470,732.50
12/1/2023			450,191.25	450,191.25	
6/1/2024	570,000	4	450,191.25	1,020,191.25	
6/30/2024					1,470,382.50
12/1/2024			438,791.25	438,791.25	
6/1/2025	595,000	4	438,791.25	1,033,791.25	
6/30/2025					1,472,582.50
12/1/2025			426,891.25	426,891.25	
6/1/2026	620,000	4.1	426,891.25	1,046,891.25	
6/30/2026					1,473,782.50
12/1/2026			414,181.25	414,181.25	
6/1/2027	645,000	4.2	414,181.25	1,059,181.25	
6/30/2027					1,473,362.50



12/1/2027			400,636.25	400,636.25	
6/1/2028	670,000	4.3	400,636.25	1,070,636.25	
6/30/2028					1,471,272.50
12/1/2028			386,231.25	386,231.25	
6/1/2029	700,000	5.25	386,231.25	1,086,231.25	
6/30/2029					1,472,462.50
12/1/2029			367,856.25	367,856.25	
6/1/2030	735,000	5.25	367,856.25	1,102,856.25	
6/30/2030					1,470,712.50
12/1/2030			348,562.50	348,562.50	
6/1/2031	775,000	5.25	348,562.50	1,123,562.50	
6/30/2031					1,472,125.00
12/1/2031			328,218.75	328,218.75	
6/1/2032	815,000	5.25	328,218.75	1,143,218.75	
6/30/2032					1,471,437.50
12/1/2032			306,825.00	306,825.00	
6/1/2033	860,000	5.25	306,825.00	1,166,825.00	
6/30/2033					1,473,650.00
12/1/2033			284,250.00	284,250.00	
6/1/2034	905,000	5	284,250.00	1,189,250.00	
6/30/2034					1,473,500.00
12/1/2034			261,625.00	261,625.00	
6/1/2035	950,000	5	261,625.00	1,211,625.00	
6/30/2035					1,473,250.00
12/1/2035			237,875.00	237,875.00	
6/1/2036	995,000	5	237,875.00	1,232,875.00	
6/30/2036					1,470,750.00
12/1/2036			213,000.00	213,000.00	
6/1/2037	1,045,000	5	213,000.00	1,258,000.00	
6/30/2037					1,471,000.00
12/1/2037			186,875.00	186,875.00	
6/1/2038	1,100,000	5	186,875.00	1,286,875.00	
6/30/2038					1,473,750.00
12/1/2038			159,375.00	159,375.00	
6/1/2039	1,155,000	5	159,375.00	1,314,375.00	
6/30/2039					1,473,750.00
12/1/2039			130,500.00	130,500.00	
6/1/2040	1,210,000	5	130,500.00	1,340,500.00	
6/30/2040					1,471,000.00
12/1/2040			100,250.00	100,250.00	
6/1/2041	1,270,000	5	100,250.00	1,370,250.00	
6/30/2041					1,470,500.00
12/1/2041			68,500.00	68,500.00	
6/1/2042	1,335,000	5	68,500.00	1,403,500.00	
6/30/2042					1,472,000.00
12/1/2042			35,125.00	35,125.00	
6/1/2043	1,405,000	5	35,125.00	1,440,125.00	
6/30/2043					1,475,250.00
<b>TOTAL</b>	<b>\$22,305,000</b>		<b>\$20,634,904.23</b>	<b>\$42,239,904.23</b>	<b>\$42,932,904.23</b>

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **Limited Obligations of the Authority**

The Bonds are limited obligations of the Authority. The Authority is not obligated to advance any moneys derived from any source other than Payments (as defined below) and other assets pledged under the Indenture, whether for the payment of the principal or redemption price or interest with respect to the Bonds.

THE BONDS ARE NOT AND SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, AND ARE NOT AND SHALL NOT BE DEEMED TO BE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE, OR OF ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. NEITHER THE STATE NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE REDEMPTION PREMIUM, IF ANY, OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER. NOTHING IN THE INDENTURE, THE ACT OR OTHERWISE IS AN UNDERTAKING BY THE AUTHORITY OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO FUND THE TRANSFERS DESCRIBED IN THE INTERCEPT NOTICE (DEFINED HEREIN) OR TO MAKE FUNDS AVAILABLE TO THE BORROWER IN ANY AMOUNT OR AT ANY TIME.

### **Pledge of Payments and Other Amounts**

The Authority has executed and delivered the Indenture and has pledged to secure the payment of the principal of and interest on the Bonds in accordance with the terms of the Indenture, all of the Payments and any other amounts (excluding proceeds of the sale of Bonds) held in any fund or account established pursuant to the Indenture. Said pledge will constitute a lien on and security interest in such assets and will attach and be valid and binding from and after delivery of the Bonds, without any physical delivery thereof or further act.

“Payments,” under the Indenture, means (i) all moneys (except any money received to be used for the payment of Administrative Fees and Expenses) received by the Trustee with respect to the Intercept (as discussed below), (ii) all moneys, if any, received by the Trustee directly from the Borrower pursuant to the Loan Agreement, including Loan Repayments, and (iii) all income derived from the investment of any money in any fund or account established pursuant to the Indenture. “Loan Repayments,” under the Indenture, means the amounts due and payable from the Borrower to the Authority pursuant to the Loan Agreement. See “APPENDIX G - SUMMARY OF PRINCIPAL BOND DOCUMENTS - SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” herein.

Pursuant to the Loan Agreement, to secure the payment of the Loan Repayments and Additional Payments, and the performance by the Borrower of its other obligations thereunder, the Borrower has pledged and granted to the Authority a Lien on and security interest in the Gross Revenues, subject only to Permitted Liens. “Gross Revenues” means, for any fiscal year ended June 30 (each a “Fiscal Year”), all of the revenues, income, cash receipts and other money received by the Borrower, or received by the Trustee on behalf of the Borrower pursuant to the Indenture, that are legally available for payment of the obligations of the Borrower under the Loan Agreement. See “APPENDIX G - SUMMARY OF PRINCIPAL BOND DOCUMENTS- SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT” herein.

As further security for the Bonds, the Borrower will instruct the State Controller to make an apportionment to the Trustee in amounts and on dates provided in the Intercept Notice sufficient to repay the Bonds and pay necessary and incidental costs. Funds received by the Trustee pursuant to the Intercept described in clause (i) of the definition of Payments will be held in trust and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture, including if necessary, the payment of debt service on the Bonds. Under State

law, no party, including the Borrower or any of its creditors will have any claim to the money apportioned or to be apportioned to the Trustee by the State Controller pursuant to the Intercept. See “Intercept” and “RISK FACTORS-Bankruptcy” below.

**Description of State Intercept, if applicable – sourced from Oppenheimer**

**Charter School Intercept Program**

Application will be made by the Charter School for the direct payment of the debt service on the Bonds by the “Sample State” State Treasurer pursuant to the Charter Intercept Statute. A charter school that is entitled to receive moneys from the state public school fund may request that the State Treasurer make direct payments of principal and interest on bonds issued by a governmental entity (such as the Authority) on behalf of the charter school. Such charter school must specify the amount of each payment to be made. If the State Treasurer concludes that the amount of moneys from the state public school fund that a charter school will receive for any given budget year will be less than the amount of the payments specified by the charter school, the State Treasurer may not agree to make direct payments on behalf of the charter school.

In the case of a charter school authorized by a school district board of education, the State Treasurer will withhold the amount of any direct payments made on behalf of a charter school plus administrative costs associated with the making of direct payments in an amount agreed upon by the State Treasurer and the charter school. The State Treasurer shall notify the chief financial officers of the chartering district and the charter school of any amount of moneys withheld, and the chartering district shall reduce the amount of funding it provides to the charter school by said amount.

If the State Treasurer does not agree to make direct payments of principal and interest on bonds on behalf of a charter school because the charter school is not entitled to receive moneys from the state public school fund or because the State Treasurer has concluded that the amount of moneys from the state public school fund that the charter school will receive for any given budget year will be less than the amount of the direct payment specified by the charter school that will be due during the budget year, the charter school may request that its chartering district make direct payments of principal and interest on the bonds.

The Charter Intercept Statute provides that the State covenants with the purchasers of any outstanding bonds issued on behalf of a charter school by a governmental entity in reliance upon the foregoing that it will not repeal, revoke, or rescind such provisions or modify or amend the same so as to limit or impair the rights and remedies granted by such provisions.

However, nothing in the foregoing shall be deemed or construed to require the State to continue the payment of State assistance received by charter schools or to limit or prohibit the State from repealing, amending, or modifying any law relating to the amount of State assistance received by charter schools or the manner of payment or timing thereof. Nothing in the foregoing shall be deemed or construed to create a debt of the State with respect to such bonds or other obligations within the meaning of any state constitutional provision or to create any liability except to the extent provided above.

The Charter School and the Corporation have irrevocably agreed to take all action necessary to assure direct intercept of amounts necessary to provide for the payment of principal of and interest on the Bonds.

## **Assignment of Payments and Other Amounts, Loan Agreement and Deed of Trust**

The Authority assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, (i) all of the Payments (except Payments with respect to the Intercept, as described below) and other amounts pledged under “-Pledge of Payments and Other Amounts” above, (ii) all of the right, title and interest of the Authority in, to and under the Loan Agreement (except for the right to receive any administrative fees and expenses payable to the Authority, the right to receive any indemnification and the right to receive any notices and reports) and (iii) the Deed of Trust. The Trustee will be entitled to and will receive all of the Payments, and any Payments collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will forthwith be paid by the Authority to the Trustee. The Trustee also will be entitled to and will (subject to the provisions of the Indenture) take all steps, actions and proceedings following any event of default under the Loan Agreement reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority assigned to the Trustee and all of the obligations of the Borrower under the Loan Agreement.

*Deed of Trust.* “Deed of Trust” means that certain Deed of Trust with Assignment of Rents, Security Agreement and Fixture Filing, dated as of February 1, 2014, by the Borrower, as trustor, in favor of Chicago Title Company, as trustee thereunder, creating a lien on the Facility (as described below) that the Borrower owns in fee for the benefit of the Trustee (as assignee of the Authority), as trustee for the Holders of the Bonds, which will be recorded in the office of the County Recorder of San Diego County.

For information regarding the Borrower, see “APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT,” and “APPENDIX C - AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR THE FISCAL YEAR ENDED JUNE 30, 2012.”

### **Revenue Fund**

The Trustee will establish, maintain and hold in trust a special fund designated as the “Revenue Fund.” All Payments will be promptly deposited by the Trustee upon receipt thereof into the Revenue Fund, and will be held in trust for the benefit of the Holders from time to time of the Bonds but will nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture. The Trustee will establish within the Revenue Fund an Interest Account and a Principal Account for the debt service on the Bonds.

*Interest Account.* All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

*Principal Account.* All amounts in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal or Mandatory Sinking Account Payments of the Bonds, as provided in the Indenture.

The Trustee will establish and maintain within the Principal Amount a separate subaccount for the Bonds designated as the “Sinking Account,” inserting therein the series and maturity (if more than one such account is established) for each Term Bond. On or before October 1 in each year, the Trustee will transfer the amount deposited in the Principal Account on that date pursuant to the Indenture, as described in “-Allocation of Revenues” below, from the Principal Account to the Sinking Account for the purpose of making a Mandatory Sinking Account Payment (if such deposit is required in such month). With respect to the Sinking Account, on each Mandatory Sinking Account Payment date established for the Sinking Account, the Trustee will transfer the amount deposited in the Principal Account pursuant to the Indenture for the purpose of applying the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Bonds, upon the notice and in the manner provided in the Indenture; provided that, at any time prior to giving such notice of such redemption, the Trustee will apply such moneys to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Borrower may direct, in writing, except that the purchase price (excluding accrued interest) will not exceed the par amount of such Bonds. If, during the twelve-month period

immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Bonds with moneys in the Sinking Account, or, during said period and prior to giving said notice of redemption, the Borrower has deposited Bonds with the Trustee, or Bonds were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed will be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to the provisions of the Indenture summarized in this paragraph will be delivered to the Trustee and cancelled. Any amounts remaining in the Sinking Account when all of the Bonds are no longer Outstanding will be withdrawn by the Trustee and transferred to the Revenue Fund. All Bonds purchased from the Sinking Account or deposited by the Borrower with the Trustee will be allocated first to the next succeeding Mandatory Sinking Account Payment, then to the remaining Mandatory Sinking Account Payments as the Borrower direct.

The Term Bonds, which are Bonds payable on or before their specified maturity dates from Mandatory Sinking Account Payments, will be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments as set forth in “THE BONDS- Redemption- Mandatory Sinking Fund Redemption.”

*Reserve Account.* Under the Indenture, the Trustee will establish a debt service reserve account (the “Reserve Account”) within the Revenue Fund. All amounts in the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Account or the Principal Account, or (together with any other funds available) for the payment or redemption of all Outstanding Bonds.

Amounts on deposit in the Reserve Account will be valued by the Trustee at their fair market value each October 1, and the Trustee will notify the Borrower of the results of such valuation. If the amount on deposit in the Reserve Account on the first Business Day following such valuation is less than one-hundred percent (100%) of the Reserve Account Requirement (as defined below), the Borrower has agreed in the Loan Agreement to make the deposits to the Reserve Account required by the Indenture. If the amount on deposit in the Reserve Account on the first Business Day following such valuation is greater than the Reserve Account Requirement, the excess will be withdrawn from the Reserve Account and transferred to the Revenue Fund.

“Reserve Account Requirement means as of any date of calculation, an amount which will be equal to \$937,000.

See “APPENDIX G - SUMMARY OF PRINCIPAL BOND DOCUMENTS - SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

### **Capital Maintenance and Operating Fund**

The Trustee will establish, maintain and hold in trust a special fund designated as the “Capital Maintenance and Operating Fund,” which shall be used solely for capital maintenance, repair and replacement of the Facility, including but not limited to replacement of equipment, replacement or repair of any roof or other structural component, exterior painting, and the replacement or repair of heating, air conditioning, plumbing and electrical equipment, all as permitted under the Indenture. At the request of the Borrower, any amounts on deposit in the Capital Maintenance and Operating Fund in excess of \$200,000 may be transferred by the Trustee to the Revenue Fund and applied to the payment of the interest on the Bonds.

### **Allocation of Revenues**

On or before the On or before last Business Day of each March and September, commencing on the Effective Date, the Trustee will transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Revenue Fund) and then to the Rebate Fund, the following amounts, in the following order of priority, the requirements of each such account or fund (including the making up of any deficiencies in any such account resulting from lack of Payments sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account or fund subsequent in priority:

- 1) To the Interest Account, the aggregate amount of interest becoming due and payable during the next succeeding Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest;
- 2) On and after March 31 2015, to the Principal Account, one-half of the aggregate amount of principal and Mandatory Sinking Account Payments becoming due or payable on the next succeeding Principal Payment Date, until the balance in said Principal Account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments;
- 3) To the Reserve Account, (a) the greater of (i) the amount designated for deposit in the Reserve Account in a Written Direction of the Borrower, and (ii) one-fourth of the aggregate amount of each prior withdrawal from the Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn), provided that no deposit need be made into the Reserve Account if the balance in said account is at least equal to the Reserve Account Requirement, and (b) in the event the balance in said account will be less than the Reserve Account Requirement due to valuation of the Eligible Securities deposited therein pursuant to the Indenture, the amount necessary to increase the balance in said account to an amount at least equal to the Reserve Account Requirement (until deposits on account of such valuation deficiency are sufficient to increase the balance in said account to said amount);
- 4) To the Capital Maintenance and Operating Fund, in the event the balance in said Fund shall be less than the Capital Maintenance and Operating Fund Requirement, \$20,000 (or such lesser amount as shall be necessary to bring the balance in said Fund to the Capital Maintenance and Operating Fund Requirement); and
- 5) To the Rebate Fund, such amounts as are required to be deposited therein by the Indenture or the Tax Certificate.

Any moneys remaining in the Revenue Fund after the foregoing transfers will be transferred on the first Business Day of each April and October by the Trustee to the Borrower, at the direction of the Borrower, free and clear of the lien of the Indenture.

See "APPENDIX G - SUMMARY OF PRINCIPAL BOND DOCUMENTS- SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" and "APPENDIX G - SUMMARY OF PRINCIPAL BOND DOCUMENTS- SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT" herein.

### **Deed of Trust on the Facility**

The Borrower will execute the Deed of Trust, which will secure payment and performance of the Borrower's obligations under the Loan Agreement. The Borrower will grant the Trustee a first priority lien on the Facility, subject to any Permitted Liens, as defined in the Indenture. The Borrower will obtain, at its own cost and expense, an ALTA policy or policies of title insurance regarding the Facility, or an endorsement to such policy at the time of and dated as of the date of issuance of the Bonds in an aggregate amount not less than the aggregate principal amount of the Bonds to be Outstanding after the issuance of the Bonds, payable to the Trustee, insuring the title of the Borrower to the Facility, subject only to Permitted Liens, issued by a title insurance company qualified to do business in the State of "Sample State". See "CERTAIN RISK FACTORS- Limitations on Value of the Facility and to Remedies Under the Deed of Trust" herein.

For more information on the Borrower and the Facility, see "THE PROJECT" and "APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT." And for more information on the Borrower's obligations, see "APPENDIX G - SUMMARY OF PRINCIPAL BOND DOCUMENTS - SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

## **CERTAIN FINANCIAL COVENANTS OF THE BORROWER**

Pursuant to the Loan Agreement, the Borrower has agreed to certain financial covenants. For more information on the covenants listed below, see “APPENDIX G - SUMMARY OF PRINCIPAL BOND DOCUMENTS- SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT.”

### **Days Cash on Hand and Debt Service Coverage Ratio**

Pursuant to the terms of the Loan Agreement, the Borrower covenants and agrees to comply with the following Days Cash on Hand requirement. “Days Cash on Hand” means: (a) the sum of Cash and Cash Equivalents of the Borrower, as shown on the Borrower’s audited financial statements for each Fiscal Year, and any State payments accrued to such Fiscal Year and scheduled to be received within the two months following the end of such Fiscal Year (“Cash on Hand”); divided by (b) the quotient of Operating Expenses, as shown on the audited financial statements for such Fiscal Year, divided by 365. “Operating Expenses” means fees and expenses of the Borrower, including maintenance, repair expenses, utility expenses, administrative and legal expenses, miscellaneous operating expenses, advertising costs, payroll expenses (including taxes), the cost of material and supplies used for current operations of the Borrower, the cost of vehicles, equipment leases and service contracts, taxes upon the operations of the Borrower not otherwise mentioned in the Loan Agreement, charges for the accumulation of appropriate reserves for current expenses not annually recurrent, but which are such as may reasonably be expected to be incurred in accordance with generally accepted accounting principles, all in such amounts as reasonably determined by the Borrower; provided however, “Operating Expenses” will not include (i) depreciation and amortization expenses; (ii) those expenses which are actually paid from any revenues of the Borrower which have not been pledged for payment of the Bonds; and (iii) expenditures for capitalized assets.

The Days Cash on Hand requirement will be tested as of June 30 in each Fiscal Year, commencing June 30, 2015, and will be equal to or greater than 30 days for such test date and every year thereafter. The Borrower will employ its auditor to provide the Trustee by no later than December 31 of each year, commencing December 31, 2015, with a certification that the Days Cash on Hand requirement has been met as of the preceding June 30 test date. The foregoing is subject to the qualification that if applicable state or federal laws or regulations, or the rules and regulations of agencies having jurisdiction, will not permit the Borrower to accumulate such level of Cash on Hand, then the Borrower will conform to the then prevailing laws, rules or regulations.

If the Days Cash on Hand for any testing date is less than 30 days, then the Borrower will promptly employ an Independent Consultant to review and analyze the operations and administration of the Borrower, submit to the Borrower and Trustee written reports, and make such recommendations as to the operation and administration of the Borrower as such Independent Consultant deems appropriate, including any recommendation as to a revision of the methods of operation of the Borrower. The Borrower agrees to consider any recommendations by the Independent Consultant and, to the fullest extent practicable and allowed by law and consistent with covenants under the Loan Agreement, to adopt and carry out such recommendations.

Pursuant to the terms of the Loan Agreement, the Borrower covenants and agrees to budget for and maintain a Debt Service Coverage Ratio for each Fiscal Year of not less than one point one times (1.10x), commencing with the Fiscal Year ended June 30, 2015. The Borrower will employ its auditor to provide the Trustee by no later than December 31 of each year, commencing December 31, 2015, with a certification of the Debt Service Coverage Ratio as of the end of the preceding Fiscal Year.

If the Debt Service Coverage Ratio for any Fiscal Year, commencing with the Fiscal Year ended June 30, 2015, is less than one point one times (1.10x) for such Fiscal Year (as evidenced by the Borrower’s audited financial statements for such Fiscal Year), then, the Borrower will promptly employ an Independent Consultant to review and analyze the operations and administration of the Borrower, submit to the Borrower and Trustee written reports, and make such recommendations as to the operation and administration of the Borrower as such Independent Consultant deems appropriate, including any recommendation as to a revision of the methods of operation of the Borrower. The Borrower agrees to consider any recommendations by the Independent Consultant and, to the fullest extent practicable and allowed by law and consistent with its covenants hereunder, to adopt and carry out such recommendations.



So long as the Borrower is otherwise in full compliance with the obligations under the Loan Agreement, including following, to the fullest extent practicable, the recommendations of the Independent Consultant and meeting the Days Cash on Hand requirement, it will not constitute an Event of Default if the Debt Service Coverage Ratio for any Fiscal Year ending on or after June 30, 2015, is less than one times (1.00x) for such Fiscal Year (as evidenced by the Borrower's audited financial statements for such Fiscal Year).

Notwithstanding the immediately preceding paragraph, if the Debt Service Coverage Ratio for any two consecutive Fiscal Years ending on or after June 30, 2016, is less than one times (1.00x) (as evidenced by the Borrower's audited financial statements for such Fiscal Years), then a majority of the Beneficial Owners in principal amount of the Bonds may either (a) direct the Trustee to declare an Event of Default or (b) direct the Trustee to exercise one or more of the remedies permitted under the Loan Agreement and the Indenture. In the absence of Beneficial Owner direction, the Trustee may take the action described in clauses (a) and (b) of the preceding sentence.

### **Limitations on Additional Indebtedness**

The Borrower will not incur any additional Indebtedness secured in whole or in part by Liens on the Facility or the Gross Revenues that are senior to the Deed of Trust and the security interest in the Gross Revenues granted by the Loan Agreement. Except as provided in the Loan Agreement, the Borrower will not incur any additional parity indebtedness secured in whole or in part by the Facility or the Gross Revenues (with the exception of (i) capital leases requiring annual lease payments not to exceed \$25,000 (plus the applicable CPI Adjustment), which leases are expressly permitted under the Loan Agreement, (ii) the securing of alternate financing that contemporaneously pays in full all obligations of the Borrower under the Loan Agreement, and (iii) Permitted Short-Term Indebtedness) without (x) obtaining the consent of the Registered Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding or (y) without the need for any consent of the Registered Owners, provided that the Borrower has delivered evidence to the Trustee that the Debt Service Coverage Ratio for the preceding Fiscal Year was equal to or greater than one point two times (1.20x) and that the projected Debt Service Coverage Ratio for the Fiscal Year in which the additional parity indebtedness will be incurred and for one subsequent Fiscal Year, taking into account the additional Indebtedness, will be equal to or greater than one point two times (1.20x). If the additional parity indebtedness involves the issuance of Additional Bonds, the Borrower also shall be subject to and shall satisfy any additional requirements of the Indenture relating to the issuance of Additional Bonds.

The Borrower covenants that except as specifically provided in the Loan Agreement, the Borrower shall not create, assume, incur or suffer to be created, assumed or incurred any Lien (other than Permitted Liens). The Borrower may incur Indebtedness subordinate to the obligations of the Borrower under the Loan Agreement and may create Liens on the Facility and the Gross Revenues, or other assets of the Borrower securing such subordinate Indebtedness, so long as such Indebtedness (i) is subordinate to the Deed of Trust and obligations under the Loan Agreement, and (ii) is either (A) Permitted Short-Term Indebtedness or (B) incurred by the Borrower in the ordinary course of business and does not exceed \$200,000 (plus the applicable CPI Adjustment) in annual payments.

"Indebtedness" means all obligations for borrowed money, installment sales and capitalized lease obligations, incurred or assumed by the Borrower, including Guaranties, Long-Term Indebtedness, Interim Indebtedness, Short-Term Indebtedness or any other obligation for payments of principal and interest with respect to money borrowed.

"Long-Term Indebtedness" means Indebtedness other than Short-Term Indebtedness or Interim Indebtedness. "Interim Indebtedness" means all Indebtedness having an original maturity less than or equal to five years and not renewable at the option of the Borrower for a term greater than five years from the date of original incurrence of issuance.

"Short-Term Indebtedness" means all Indebtedness having an original maturity less than or equal to one year and not renewable at the option of the Borrower for a term greater than one year from the date of original incurrence or issuance unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least twenty (20) consecutive days during each Fiscal Year.

“Permitted Short-Term Indebtedness” means Short-Term Indebtedness incurred by the Borrower for working capital purposes, provided that such Permitted Short-Term Indebtedness, may not exceed the sum of (a) the maximum amount of advance apportionment and principal apportionment due to the Borrower in any Fiscal Year that is deferred at any time or subject to deferral pursuant to Section 14041.6 of the Education Code or Sections 16325.5 and 16326 of the Government Code, or any subsequent legislation authorizing additional deferrals of such apportionments, and (b) 10% of the Operating Expenses for the Fiscal Year prior to the date of calculation.

### **Independent Consultant**

In the event that the Borrower is in violation of the covenants described under “ - Cash on Hand and Debt Service Coverage Ratio” and “ - Limitations on Additional Indebtedness,” and certain other financial covenants in the Loan Agreement, upon the written direction of a majority of the Beneficial Owners in principal amount of the Bonds, the Borrower will promptly employ an Independent Consultant. The Independent Consultant will review and analyze the financial statements and condition of the Borrower and inspect the Facility, its operation and administration, and submit written reports to the Borrower and Trustee, and make such recommendations as to the operation and administration of the Borrower as such Independent Consultant deems appropriate. The Borrower agrees to consider any recommendations by the Independent Consultant and, to the fullest extent practicable and allowed by law and consistent with its covenants under the Loan Agreement, to adopt and carry out such recommendations.”

## **CHARTER SCHOOLS**

### **General**

This section provides a brief overview of “Sample State” system for funding charter schools. Prospective purchasers of the Bonds should note that the overview contained below and the summary of relevant law noted by cross-reference in the sections that follow are provided for the convenience of prospective purchasers but are not and do not purport to be comprehensive. Additional information regarding various aspects of charter school funding in “Sample State” is available on numerous State-maintained websites and through other publicly available sources.

Under State Law, charter schools are largely independent schools operating as part of the public school system under the exclusive control of the officers of the public schools. A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and is usually sponsored by an existing local public school district or county board of education. Specific goals and operating procedures for the charter school are detailed in a “charter” granted by the sponsoring board to the charter organizers.

A charter school is generally exempt from the laws governing school districts, except where specifically noted in the law. Charter schools in the State are created pursuant to Part 26.8 (beginning with Section 47600) of Division 4 of Title 2 of the State Education Code (the “Charter School Law”). The law also requires that a public charter school be nonsectarian in its programs, admission policies, employment practices and all other operations, and prohibits the conversion of a private school to a charter school. Public charter schools may not charge tuition and may not discriminate against any pupil on the basis of ethnicity, national origin, gender or disability. State public charter schools are required to participate in the State Testing and Reporting Program.

According to the Charter School Law, the purpose of a charter school is to: (1) improve pupil learning; (2) increase learning opportunities for all pupils, with special emphasis on expanded learning experiences for pupils identified as academically low achieving; (3) encourage the use of different and innovative teaching methods; (4) create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site; (5) provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system; (6) hold schools accountable for meeting measurable pupil outcomes and provide schools a way to shift from a rule-based to a performance-based system of accountability; and (7) provide competition within the public school system to stimulate improvements in all public schools.

Anyone may write a charter. However, for a new charter school (not conversion of an existing traditional public school), charter developers must present a petition to the governing board of the local school district (or other chartering authority) containing the signatures of either: (1) a number of teachers meaningfully interested in teaching at the school equal to at least 50 percent of the number of teachers the charter school estimates will be employed, or (2) a number of parents representing at least 50 percent of the number of pupils expected to enroll at the school in its first year. For conversion schools, Charter School Law requires signatures of at least 50 percent of the teachers at the school to be converted. Pupils may not be required to attend a charter school nor may teachers be compelled to teach there. Charters are granted for a maximum term of five years, and may be renewed for new five-year terms without limitation upon satisfaction of certain criteria described below.

Generally, each charter school is funded to its statutory entitlement after the local contribution is taken into account. Local funding comes from the chartering school district or other sponsoring local education agency in lieu of property taxes (generally funded from the school district's own property tax receipts), while the State funds the balance directly through the county office of education. The proportion coming from the State will vary from district to district depending on the amount of local property taxes collected. In addition, charter schools receive State categorical block grant funding and lottery funds based upon pupil attendance, and may be eligible for other special programmatic aid from State and federal grants. Charter schools are prohibited from charging tuition under the Charter School Law. See "STATE FUNDING OF EDUCATION" and "CERTAIN RISK FACTORS - Specific Risks of Charter Schools."

### **Chartering Authority**

Under the Charter School Law, the local school district governing board serves as the primary chartering authority. A petitioner may seek approval of a charter from a county board of education if the pupils to be served are pupils that would normally be provided direct education and related services by the county office of education. A petitioner may also seek approval from a county board of education for a countywide charter school, which may be granted only if the county board finds that the proposed countywide charter school will offer services to a pupil population that will benefit from those services and that cannot be served as well by a charter school that operates only in one school district in the county. See "Countywide Benefit Charter Schools" below. A petitioner may seek approval directly from the State Board of Education only if the State Board of Education finds that the proposed state charter school will provide instructional services of statewide benefit that cannot be provided by a charter school operating in only one school district or county. See "Statewide Benefit Charter" below. Petitioners may request the county board of education or the State Board of Education to review a charter petition if the petition has been previously denied by the local school district governing board. The "sample local school district" (the "School District Board") is the chartering authority for the Borrower. The original charter of the Borrower was approved in November 2002 by the School District Board and renewed on May 13, 2008, for the period extending through June 30, 2014. On December 11, 2012, the School District Board renewed the Borrower's charter petition through June 30, 2018.

See "APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT - CHARTERS."

## **Elements of a Charter Petition**

Each charter petition, at a minimum, must contain reasonably comprehensive descriptions of each of sixteen required elements. They are:

1. A description of the educational program of the charter school.
2. The measurable pupil outcomes identified for use by the charter school.
3. The method by which pupil progress in meeting those pupil outcomes is to be measured.
4. The charter school's governance structure, including parental involvement.
5. The qualifications to be met by individuals employed by the charter school.
6. Procedures to ensure health and safety of pupils and staff.
7. The means by which the charter school will achieve racial and ethnic balance among pupils, reflective of the general population residing in the chartering district.
8. Admission requirements, if applicable.
9. The manner in which annual financial audits will be conducted, and the manner in which audit exceptions and deficiencies will be resolved to the satisfaction of the chartering authority.
10. The procedures by which pupils may be suspended or expelled.
11. Provisions for employee coverage under the State Teachers' Retirement System, the Public Employees' Retirement System, or federal social security.
12. The public school alternatives for pupils residing within the district who choose not to attend charter schools.
13. A description of the rights of any employee of the school district upon leaving the employment of the school district to work in a charter school, and of any rights of return to the school district after employment at a charter school.
14. The procedures to be followed by the charter school and the entity granting the charter to resolve disputes relating to provisions of the charter.
15. A declaration of whether or not the charter school will be deemed the exclusive public school employer of the employees of the charter school for purposes of the Educational Employment Relations Act.
16. A description of the procedures for closure of the school and disposition of assets.

Under the accountability requirements of Assembly Bill 1137 ("AB 1137"), signed into law in October 2003, districts or other agencies that grant charter authority must identify a contact person for charter schools, visit each charter school at least once a year, and ensure that charter schools submit all required reports (including fiscal reports that must be sent four times a year to the district and local county office of education). In addition, the district must monitor the fiscal condition of its charter schools and notify the State Department of Education whenever a charter is granted, denied, revoked, or the charter school will cease operation. AB 1137 also required that charter schools show a certain level of academic performance to have their charters renewed.

**Comprehensive Discussion of Charter Renewal Requirements – sourced from Ziegler**

**CHARTER RENEWAL**

**Petitions**

The Charter Schools Act of 1992, “Sample State” Education Code §47600, as amended from time to time (the “Charter Schools Act”<sup>(4)</sup>) authorizes teachers, parents and/or community members to petition the local board of education to establish publicly funded charter schools. A charter petition defines the charter school’s goals, standards, education design, governance and operations. The degree of authority to be exercised by the charter school on such issues as personnel, curriculum and facilities is delineated in the petition and conditions of approval which may be negotiated between the charter applicants and the charter school authorizer. Pursuant to “Sample State” Education Code §47607, an initial charter petition may be approved for a period not to exceed five years and may be renewed for successive periods of five years each.

**Renewal Requirements**

Under the terms of the Charter Schools Act, commencing on January 1, 2005, or after a charter school has been in operation for four years, whichever date occurs later, a charter school is required to meet at least one of the following criteria prior to receiving a charter renewal:

- (i) The charter school has attained its Academic Performance Index (“API”) growth target in the prior year or in two of the last three years, or in the aggregate for the prior three years.
- (ii) The charter school ranked in deciles 4 to 10, inclusive, on the API in the prior year or in two of the last three years.
- (iii) The charter school ranked in deciles 4 to 10, inclusive, on the API for a demographically comparable school in the prior year or in two of the last three years.
- (iv) (A) The entity that granted the charter determines that the academic performance of the charter school is at least equal to the academic performance of the public schools that the charter school pupils would otherwise have been required to attend, as well as the academic performance of the schools in the school district in which the charter school is located, taking into account the composition of the pupil population that is served at the charter school.

(B) The determination made pursuant to the above paragraph is required to be based upon all of the following:

- (i) documented and clear and convincing data;
  - (ii) pupil achievement data from assessments, including, but not limited to, the Standardized Testing and Reporting (“STAR”) program established for demographically similar pupil populations in the comparison schools; and
  - (iii) information submitted by the charter school.
- (v) The charter school has qualified for an alternative accountability system pursuant to applicable law. See “APPENDIX F - SUMMARY OF CERTAIN PROVISIONS OF “SAMPLE STATE” LAW - CHARTER SCHOOL STATUS AND OPERATIONS - Charter Terms and Renewals.”

The School currently meets the above API-related renewal requirements (i.e., it meets at least one of the requirements described in (i) through (iii) above). The Corporation has undertaken certain steps to help ensure that the School will continue to meet the API-related renewal requirements.

With respect to the other performance criteria (as described in item (iv), above), the Corporation believes that the School's performance is and will remain at least equal to the academic performance of the public schools that the School's students would otherwise be required to attend, as well as the academic performance of the schools in the Menifee District, taking into account the composition of the pupil population that the School serves.

There can be no assurance, however, the School will meet such performance requirements or the API-related requirements in the future. Any failure in that regard could lead to the revocation or nonrenewal of the charter pursuant to which the School operates and would have a material adverse effect on the Corporation and its ability to generate revenues necessary to make payments under the Lease representing debt service on the Series 2012 Bonds. See "RISK FACTORS -Nonrenewal or Revocation of Charters."

#### **Other Grounds for Nonrenewal or Revocation: Procedure**

Under the Charter Schools Act, the right to operate a charter school may be revoked by the authority that granted the charter if the authority finds, through a showing of substantial evidence, that the charter school did any of the following:

- (i) Committed a material violation of any of the conditions, standards, or procedures set forth in its charter;
  - (ii) Failed to meet or pursue any of the pupil outcomes identified in the charter;
  - (iii) Failed to meet generally accepted accounting principles, or engaged in fiscal mismanagement;
- or
- (iv) Violated any provision of law.

Prior to revocation, the authority that granted the charter is required to notify the school of the applicable violation and give the school a reasonable opportunity to remedy the violation, unless the authority determines, in writing, that the violation constitutes a severe and imminent threat to the health or safety of pupils.

Prior to revoking a charter for failure to remedy a violation, and after expiration of the school's reasonable opportunity to remedy without successfully remedying the violation, the chartering authority is required to provide a written notice of intent to revoke and notice of facts in support of revocation to the school. No later than 30 days after providing the notice of intent to revoke a charter, the chartering authority is required to hold a public hearing, in the normal course of business, on the issue of whether evidence exists to revoke the charter. No later than 30 days after the public hearing, the chartering authority is required to issue a final decision to revoke or decline to revoke the charter, unless the chartering authority and the charter school agree to extend the issuance of the decision by an additional 30 days. The chartering authority may not revoke a charter unless it makes written factual findings supported by substantial evidence, specific to the charter school, that support its findings.

If a school district is the chartering authority and it revokes a charter, the charter school may appeal the revocation to the county board of education within 30 days following the final decision of the chartering authority. The county board may reverse the revocation decision if the county board determines that the findings made by the chartering authority are not supported by substantial evidence. The school district may appeal the reversal to the State Board of Education. If the county board does not issue a decision on the appeal within 90 days of receipt, or the county board upholds the revocation, the charter school may appeal the revocation to the State Board of Education. The State Board of Education may reverse the revocation decision if the State Board of Education determines that the findings made by the chartering authority are not supported by substantial evidence. The State Board of Education may uphold the revocation decision of the school district if the State Board of Education determines that the findings made by the chartering authority are supported by substantial evidence.

In addition, pursuant to Section 47604.5 of the "Sample State" Education Code, regardless whether the State Board of Education is the charter school's authorizing authority, the State Board of Education, upon the

recommendation of the Superintendent of the Public Instruction, may take action including revocation of a charter, upon the finding of any of the following:

- (i) Gross financial mismanagement;
- (ii) Illegal or substantially improper use of the charter school funds for personal benefit by any officer, director, or fiduciary of the charter school; or
- (iii) Substantial and sustained departure from successful practices.

### **Countywide Benefit Charter Schools**

Education Code Section 47605.6 provides for the creation of countywide benefit charter schools to operate at one or more sites within the geographic boundaries of a county and that provide instructional services that are not generally provided by a county office of education. A county board of education may approve a countywide charter only if it finds, in addition to the other requirements of the Charter School Law, that the educational services to be provided by the charter school will offer services to a pupil population that will benefit from those services and that cannot be served as well by a charter school that operates in only one school district in the county.

The provisions governing denial of a charter petition for school district governing boards, also apply to the denial of petition to countywide benefit charters. A county board of education will deny a petition if it finds one or more of the following: (i) the charter school presents an unsound educational program for the pupils to be enrolled in the charter school, (ii) petitioners are unlikely to successfully implement the program set forth in the petition, (iii) the petition does not contain the number of required signatures, (iv) the petition does not contain an affirmation of each of the enumerated conditions, and (v) the petition does not contain comprehensive descriptions of the educational program of the school. The Borrower does not operate pursuant to a countywide benefit charter. See “Chartering Authority” above.

### **Statewide Benefit Charter Schools**

Education Code Section 47605.8 provides for the creation of statewide benefit charter schools to operate at multiple locations throughout the State of “Sample State”. A petition for the operation of a state charter school may be submitted to the State Board of Education (“SBE”) and the SBE has the authority to approve a charter for the operation of a state charter school. The SBE may not approve a petition for the operation of a state charter school unless it finds that the proposed state charter school will provide instructional services of statewide benefit that cannot be provided by a charter school operating in only one school district, or only in one county. As a condition of charter petition approval, the SBE may enter into an agreement with a third party, at the expense of the charter school, to oversee, monitor, and report on, the operations of the charter school.

The provisions governing denial of a charter petition for county boards of education, also apply to the denial of petition to statewide benefit charters. Petition denials include: (i) the charter school presents an unsound educational program for the pupils to be enrolled in the charter school, (ii) petitioners are unlikely to successfully implement the program set forth in the petition, (iii) the petition does not contain the number of required signatures, (iv) the petition does not contain an affirmation of each of the enumerated conditions, and (v) the petition does not contain comprehensive descriptions of the educational program of the school. The Borrower does not operate pursuant to a statewide benefit charter. See “-Chartering Authority” above.

### **Charter Revocation**

A charter may be revoked if the charter granting authority finds, based on substantial evidence, that a charter school (i) has committed a material violation any of the conditions, standards or procedures set forth in its charter, or (ii) has failed to meet or to pursue any of the student outcomes identified in its charter, or (iii) has failed

to meet generally accepted accounting principles, or engages in fiscal mismanagement, or (iv) has violated any provision of law. Prior to revoking a charter, the charter granting authority must notify the charter school of the violation, afford the charter school a reasonable opportunity to remedy the violation, and, upon failure to do so, give written notice of intent to revoke and hold a public hearing on the matter. An adverse decision by a school district governing board may be appealed to the county board of education and an adverse decision by the county board, directly or on appeal, may be appealed to the SBE. See “CERTAIN RISK FACTORS - Specific Risks of Charter Schools- Non-Renewal or Revocation of Charters” herein.

In addition, the SBE, whether or not it is the charter granting authority, may take action based on the recommendation of the State Superintendent of Public Instruction, including but not limited to revocation of a school’s charter, upon a finding of (i) gross financial mismanagement that jeopardizes the financial stability of the charter school, (ii) illegal or substantially improper use of charter school funds for the personal benefit of any officer, director or fiduciary of the charter school, or (iii) substantial and sustained departure from measurably successful practices such that continuing departure would jeopardize the education development of the school’s pupils. Regulations promulgated by the SBE that became effective February 13, 2011 require the “Sample State” Department of Education to identify and notify the SBE of each charter school that is determined to warrant action pursuant to clause (iii) of the immediately preceding sentence by November 1 of each year. Under these regulations, charter schools so notified are required to be given an opportunity to submit written information as to why its charter should not be revoked. Any resulting action to revoke a charter is effective at the end of the fiscal year in which the action is taken, unless the SBE identifies departures at the school that are so significant as to be cause for immediate revocation and closure of the charter school. The regulations require the SBE to hold a public hearing to consider action including but not limited to charter revocation not later than March 31. See “CERTAIN RISK FACTORS - Specific Risks of Charter Schools- Non-Renewal or Revocation of Charters” herein.

The Borrower has not received any notice from the SBE or the “Sample State” Department of Education, regarding any violation or proposal to revoke the School’s charter or of any other violation requiring corrective action.

### **Amendments to the Charter School Law**

The Legislature has amended the Charter School Law frequently since its initial adoption in 1992, and legislative and public attitudes are still evolving. The Borrower has no control over State legislative or regulatory decision making that could affect its operations or ongoing funding sources. For example, Senate Bill 1290, signed into law by the Governor on September 26, 2012, requires the chartering authority to consider increases in pupil academic achievement for all groups of pupils as the most important factor in determining whether to grant a charter renewal or revoke a charter.

For legislative updates see [www.calcharters.org/advocacy/statewide/current-legislation.html](http://www.calcharters.org/advocacy/statewide/current-legislation.html). The parties to this transaction take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.



## STATE FUNDING OF EDUCATION

### General

The Charter School Law provides that the legislature intended “each charter school be provided with operational funding that is equal to the total funding that would be available to a similar school district servicing a similar pupil population ...”As is true for school districts in the State, charter schools’ revenue is derived primarily from two sources: a State portion funded from the State’s general fund and a locally generated portion derived from each sponsoring school district’s share of the local ad valorem property tax. Decreases in State revenues, or in the legislative appropriations made to fund education, may significantly affect charter schools’ operations.

*Adoption of Annual State Budget.* According to the State Constitution, the Governor of the State is required to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15, although this deadline has been breached in previous years. Historically, the budget required a two-thirds vote of each house of the State Legislature for passage. However, on November 2, 2010, the State’s voters approved Proposition 25, which amended the State Constitution to lower the vote requirement necessary for each house of the State Legislature to pass a budget bill and send it to the Governor. Specifically, the vote requirement was lowered from two-thirds to a simple majority (50% plus one) of each house of the State Legislature. The lower vote requirement also would apply to trailer bills that appropriate funds and are identified by the State Legislature “as related to the budget in the budget bill.” The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. Under Proposition 25, a two-thirds vote of the State Legislature is still required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2012-13 State budget on June 27, 2012.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each charter school’s State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to charter schools, school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the State Constitution (such as appropriations for salaries of elected state officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. Should the State Legislature fail to pass a budget or emergency appropriation before the start of any fiscal year, the Borrower might experience delays in receiving certain expected revenues.

State income tax and other receipts can fluctuate significantly from year to year, depending on economic conditions in the State and the nation. Because funding for education is closely related to overall State income, as described in this section, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. A brief description of the adopted State budget for 2012-13 is included below; however, no prediction can be made as to how State income or State education funding will vary over the entire term to maturity of the Bonds, and neither the Borrower nor the Authority takes any responsibility for informing Beneficial Owners of the Bonds as to any such annual fluctuations.

Information about the State budget and State spending for education is regularly available at various State maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov)., under the heading: “Sample State” Budget.” An impartial analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State of “Sample State” official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, currently located at

www.treasurer.ca.gov., and the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board, currently located at <http://emma.msrb.org>. The information referred to is prepared by the respective entities maintaining each website and not by the Borrower or the Authority, and neither the Borrower nor the Authority can take any responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references. The information referred to above should not be relied upon in making an investment decision with respect to the Bonds.

*Aggregate State Education Funding.* Under Proposition 98, a constitutional and statutory amendment adopted by the State's voters in 1988 and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution), a minimum level of funding is mandated for school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs, including charter schools.

The Proposition 98 guaranteed amount for education is based on prior year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post year end revisions, as additional information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

If, at year end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor."

In recent years, the State's response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the mandated amount. In response, teachers' unions, the State Superintendent and others sued the State or Governor in 1995, 2005, 2009 and 2011 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006 (QEIA), have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds from one fiscal year to the next; by permanently deferring apportionments of Proposition 98 funds from one fiscal year to the next; by suspending Proposition 98, as the State did in fiscal years 2004-05, 2010-11, 2011-12 and 2012-13 (see"- 2012-13 State Budget" and"- State Cash Management Legislation" below); and by proposing to amend the Constitution's definition of the guaranteed amount and settle up requirement under certain circumstances.

*2012-13 State Budget.* On June 27, 2012, the Governor signed into law the State budget for fiscal year 2012-13 (the “2012-13 Budget”). The Department of Finance has released its summary of the 2012-13 Budget (the “Department of Finance Report”). The following information is drawn from the Department of Finance Report.

The 2012-13 Budget seeks to close a budget gap of \$15.7 billion through a combination of measures totaling \$16.6 billion. Specifically, the 2012-13 Budget authorizes \$8.1 billion of expenditure reductions (including \$1.9 billion in reductions to Proposition 98 spending), \$6 billion of revenue increases, and \$2.5 billion of other measures. The 2012-13 Budget assumed voter approval of a modified tax initiative proposed by the Governor in his May revision to the proposed State budget (the “May Revision”). The tax initiative, labeled as “Proposition 30,” was approved by the voters at the November 6, 2012 general election. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING EDUCATION REVENUES AND APPROPRIATIONS - Proposition 30.” The 2012-13 Budget estimates that Proposition 30 will generate approximately \$8.5 billion through fiscal year 2012-13. The 2012-13 Budget assumes an attendant increase of \$2.9 billion to State funding for school districts and community colleges, resulting in a net benefit to the State’s general fund of \$5.6 billion.

With the implementation of all measures, the 2012-13 Budget assumes, for fiscal year 2011-12, total revenues of \$86.8 billion and expenditures of \$87.0 billion. The State is projected to end fiscal year 2011-12 with a total budget deficit of \$3.6 billion. For fiscal year 2012-13, the 2012-13 Budget projects total revenues of \$95.9 billion and authorizes total expenditures of \$91.3 billion. The State is projected to end the 2012-13 fiscal year with a total budget surplus of \$948 million.

The 2012-13 Budget authorized an additional \$6 billion of trigger reductions which were to become effective in the event Proposition 30 did not pass. The trigger reductions included approximately \$5.4 billion of reductions to Proposition 98 funding for schools and community colleges. The 2012-13 Budget indicates that such a reduction would have been equivalent to the cost of three weeks’ worth of instruction. This trigger reduction would also have eliminated the ability of the State to begin repaying existing apportionment deferrals to schools and community colleges. Additional triggers included the following: (i) \$250 million reduction to each of the University of “Sample State” and “Sample State” State University systems, (ii) \$50 million reduction to the Department of Developmental Services, (iii) \$20 million reflecting the elimination of certain city police grants, (iv) \$5 million reduction to local water safety patrols, (v) \$10 million reduction to the Department of Forestry and Fire Protection, (vi) \$6.6 million reduction to Department of Water Resources flood control programs, which would reduce channel and levee maintenance and floodplain mapping; (vii) \$1.1 million reduction to the departments of Parks and Recreation and Fish and Game reflecting a reduced number of state public safety officers, (viii) \$1.4 million reduction reflecting the elimination of State beach lifeguards, and (ix) \$1 million reduction to Department of Justice law enforcement programs.

For fiscal year 2012-13, the Proposition 98 minimum funding guarantee is set at \$53.6 billion, including \$36.8 billion from the State general fund. This funding level reflects the following significant adjustments and changes:

- *Proposition 98 Adjustments.* A funding decrease of approximately \$630 million due to (1) eliminating the hold-harmless adjustment provided to schools from the elimination of the sales tax on gasoline in fiscal year 2010-11, and (2) a rebenching of the minimum funding guarantee to account for the exclusion of child care programs and the inclusion of special education mental health services from within the guarantee, as well as new and existing property tax shifts. Additionally, the 2012-13 Budget reduces fiscal year 2012-13 appropriations for a number of different programs by \$220.1 million, backfilling them with available one-time funds.
- *Quality Education Investment Act (“QEIA”).* The 2012-13 Budget authorizes the use of a fiscal year 2011-12 overappropriation of the Proposition 98 minimum funding guarantee to prepay legal settlement obligations required by QEIA. As a result, the 2012-13 Budget estimates a one-time savings during fiscal year 2012-13 of \$450 million. The 2012-13 Budget also authorizes the use of this overappropriation to

prepay QEIA obligations in fiscal years 2013-14 and 2014-15 to achieve projected savings in such fiscal years of \$181 million and \$40.8 million, respectively.

- *K-12 Deferral Reduction.* An increase of \$2.1 billion in Proposition 98 funding to reduce K-12 inter-fiscal year apportionment deferrals from \$9.5 billion to \$7.4 billion. This deferral reduction was contingent on voter approval of Proposition 30.
- *Charter Schools.* A funding increase of \$53.7 million to the Proposition 98 funding for charter school categorical programs to fund growth in charter school enrollment. In addition, the 2012-13 Budget implementing legislation expands the ability of schools district to convey surplus property to charter schools, while also increasing financing assistance to charter schools by allowing county treasurers to provide them with short-term loans, and by authorizing charter schools to participate in short-term tax and revenue anticipation note borrowing mechanisms already available to schools and county offices of education.
- *Educational Mandates.* An increase of \$86.2 million funding support for K-12 educational mandates through a new voluntary block grant. Participating school districts and county offices of education would receive a \$28 per-student allocation, while participating charter schools would receive \$14 per student. Districts and county offices of education that choose not to participate in this block grant program would retain their right to submit claims for reimbursement, subject to audits by the State Controller.
- *State Preschool Programs.* The 2012-13 Budget includes a number of adjustments to State preschool programs, including (i) an increase of \$163.9 million in Proposition 98 funding to cover the cost of part-day preschool services, (ii) an increase of \$3.4 million to reflect increased fee assessments for preschool programs on families that are currently exempt from such fees (this is expected to offset Proposition 98 expenditures by a like amount); (iii) a decrease of \$30 million in Proposition 98 funding to reflect an 8.7% across-the-board reduction to general child care programs, and (iv) a decrease of \$11.9 million reflect the suspension of the statutory cost of living adjustment for preschool programs.

In addition, the 2012-13 Budget assumes an increase of \$1.3 billion in local property taxes for fiscal year 2012-13 resulting from the distribution of property taxes previously allocated to redevelopment agencies. These increased local property taxes would offset Proposition 98 spending by an identical amount. The 2012-13 Budget notes that the May Revision assumed that K-14 school districts would receive \$818 million in property tax revenues during fiscal year 2011-12 to offset State expenditures on Proposition 98 funding. The full amount of these payments were not made due to the timing of the Supreme Court's ruling in the *California Redevelopment Association v. Matosantos* case, as well as inconsistent interpretations of related legislation at the local level. The 2012-13 Budget seeks to create a one-time process to recapture these property tax revenues by requiring county auditor-controllers to bill successor agencies for the amounts that should have been distributed to the affected taxing agencies.

Additional information regarding the 2012-13 Budget may be obtained from the Department of Finance at [www.do£ca.gov](http://www.do£ca.gov). However, such information is not incorporated herein by any reference.

*Proposed 2013-14 Budget.* On January 10, 2013, the Governor released his proposed State budget for fiscal year 2013-14 (the "Proposed Budget"). The following information is drawn from the LAO's summary of the Proposed Budget as well as the 2013-14 Governor's Budget Summary, dated January 10, 2013.

The Proposed Budget reflects a projected improvement to State finances due to a continuing modest economic recovery, prior budgetary actions, and voter approval of certain revenue-raising measures at the November 6, 2012 general election. For fiscal year 2012-13, the Proposed Budget currently projects year-end revenues of \$95.4 billion and expenditures of \$93 billion. The State is currently expected to end the current fiscal year with a surplus of \$167 million. For fiscal year 2013-14, the Proposed Budget projects revenues of \$98.5 billion and expenditures of \$97.7 billion. The State is projected to end fiscal year 2013-14 with a \$1 billion surplus. The Governor's multi-year forecast projects that revenues will continue to exceed expenditures annually, accumulating to a projected \$2.5 billion general fund surplus by fiscal year 2016-17.

For fiscal year 2012-13, the Proposed Budget revises the Proposition 98 minimum funding guarantee at \$53.5 billion, approximately \$54 million less than the level set by the current State budget. To bring Proposition 98 spending in line with the reduced guarantee, the Proposed Budget reclassifies a fiscal year 2012-13 appropriation towards prefunding legal settlement obligations under the Quality Education Investment Act of 2006 (the “QEIA”). For fiscal year 2013-14, the minimum funding guarantee is set at \$56.2 billion, including \$40.9 billion from the State general fund. This represents a net increase of \$2.7 billion (or 9%) over the revised funding level for fiscal year 2012-13. The increase in spending is driven largely by year-to-year increases in baseline State revenues and the minimum funding guarantee’s share of Proposition 30 revenues.

Proposition 98 funding for K-12 education in fiscal year 2013-14 is set at \$49.2 billion, including \$36.1 billion from the State general fund. This represents an increase of approximately \$2.1 billion (or 4%) from the prior year. Significant features include the following:

- *Deferral Reduction.* The 2012-13 Budget provides \$1.9 billion to pay down K-12 and community college apportionment deferrals. The Proposed Budget includes a plan to eliminate all remaining apportionment deferrals by fiscal year 2016-17.
- *Growth Funding.* The 2012-13 Budget provides \$63 million to fund a 1.65% cost-of-living adjustment to certain K-12 categorical programs, including special education, child nutrition, and “Sample State” American Indian Education Centers. Cost-of-living adjustments for school district and county office of education revenue limits will be provided through the proposed funding increase designed to implement a new K-12 funding formula (described below). The Proposed Budget also funds a 0.10% increase in K-12 ADA, but assumes no increase in funded enrollment levels at community colleges.
- *New K-12 Funding Formula.* The Proposed Budget would significantly restructure State funding for K-12 education by consolidating revenue limits and almost all categorical programs into a single funding formula. This formula would provide a base funding grant per pupil, with supplemental funding for school districts that serve English learners and students from low income families, provide lower class sizes in grades K-3, or offer career technical education classes in high school. Under this formula, charter schools are essentially treated the same as school districts, except that a charter school may not receive a higher concentration grant than the school district in which it resides. The Proposed Budget allocates \$1.6 billion to begin increasing funding levels to a target base rate, with supplemental grants adjusted in tandem with the base increase. The Proposed Budget estimates the new formula will be fully implemented by fiscal year 2019-20.
- *Energy Efficiency Projects.* The 2012-13 Budget allocates supplemental corporate tax revenues raised by Proposition 39 (approved at the November 2012 general election) to schools and community colleges. Proposition 39 requires most interstate businesses to determine their taxable income using a single sales factor method, and provides that all revenues raised from the measure be transferred to a Clean Energy Job Creation Fund to support energy efficiency and alternative energy projects. The Proposed Budget would allocate all Proposition 39-related funding over the next five years exclusively to schools and community colleges, in an amount equal to \$450 million in fiscal year 2012-13 and \$550 million annually thereafter. For fiscal year 2013-14, this would include \$400.5 million for school districts. Under the proposal, the California Department of Education and California Community College Chancellor’s Office, in consultation with the California Energy Commission and California Public Utilities Commission, would develop guidelines for schools and community colleges in prioritizing the use of the funds.
- *Adult Education.* The Proposed Budget includes several changes to adult education funding, including narrowing State support to core instructional programs such as adult elementary and secondary education, vocational training, English as a second language, and citizenship. The Proposed Budget would also eliminate school district adult education categorical programs and consolidate the associated funding (approximately \$600 million) into the proposed new K-12 funding formula. Adult education, under the Governor’s plan, would be funded entirely through the community college system. The Proposed Budget would provide \$300 million to create a new adult education categorical program within the statewide community college budget. Funds would be distributed to colleges based on the number of students served in the prior fiscal year. While community colleges would be responsible for administering adult education,

they would be authorized to contract with school districts to provide instruction through the latter's adult schools.

- *K-12 Educational Mandates.* The Proposed Budget provides \$100 million to augment the existing block grant program, reflecting the addition of two large educational mandates within the program: the Graduation Requirements ("OR") mandate and Behavioral Intervention Plans ("BIP"). Unlike other mandates included in the block grant program, the Proposed Budget does not provide schools the option to submit independent claims for reimbursement in connection with OR and BIP.
- *Retiring K-14 Obligations.* The Proposed Budget would use half of the projected year-to-year growth in Proposition 98 spending in fiscal years 2013-14 through 2015-16 to reduce outstanding obligations to schools and community colleges, including the reduction of all apportionment deferrals, funding settle-up payments to reduce outstanding mandate claims, and retiring the State's obligations associated with the Emergency Repair Program and the QEIA.
- *Redevelopment Agency Funds.* The Proposed Budget assumes lower State general fund savings from the distribution of offsetting residual property tax revenues and redevelopment agency liquid assets. For the current year, the Proposed Budget projects that redevelopment-related distributions will be \$1.1 billion less than what was assumed by the State budget for fiscal year 2012-13. For fiscal year 2013-14, the Proposed Budget projects that such distributions will be \$494 million less than previously assumed. The LAO notes that, while the Governor's projections are reasonable, the process for dissolving redevelopment agencies has yet to be fully implemented, subjecting associated State general fund savings projections to considerable uncertainty.

Specific charter school proposals in the Proposed Budget include the following:

- Shifting the Charter School Facility Grant Program and the Charter School Revolving Loan Program from the Department of Education to the California School Finance Authority to improve the efficiency of charter school program administration and disbursement of funds to local charter schools.
- Modifying the funding determination process for non-classroom based charter schools by limiting it to the first and third years of operation in most instances. Charter schools that are found to be out of compliance with minimum standards and applicable laws would be required to comply with annual funding determinations.
- Expanding the Charter Schools Facility Grant Program to include eligibility for non-classroom based charter schools.
- Extending for five additional years the 2012-13 requirement that school districts with identified surplus property and facilities first offer to sell those resources to charter schools before selling them to other entities or disposing of those assets.

Additional information regarding the Proposed Budget is available from the LAO's website at [www.lao.ca.gov](http://www.lao.ca.gov) and the Department of Finance at [www.dof.ca.gov](http://www.dof.ca.gov). However, such information is not incorporated herein by any reference.

*State Cash Management Legislation.* On March 1, 2010, the Governor signed a bill (and on March 4, 2010, subsequently signed a clean-up bill to clarify certain provisions of such bill) to provide additional cash management flexibility to State fiscal officials (the "Cash Management Bill"). The Cash Management Bill authorized deferral of certain payments during the 2010-11 fiscal year for school districts (not to exceed \$2.5 billion in the aggregate at any one time, and a maximum of three deferrals during the fiscal year). The Cash Management Bill permitted deferrals of payments to K-12 schools in July 2010, October 2010 and March 2011, for not to exceed 60, 90 and 30 days, respectively, but, depending on actual cash flow conditions at the time, allowed the State Controller, Treasurer and Director of Finance to either accelerate or delay the deferrals up to 30 days or reduce the amounts deferred. The Cash Management Bill also permitted the State to move a deferral to the prior month or to a subsequent month upon

30 days written notice by the State Department of Finance to the Legislative Budget Committee, except that the Cash Management Bill provided that the deferral for March 2011 was required to be paid prior to April 30. The Cash Management Bill provided for exceptions to the deferrals for school districts that could demonstrate hardship. The Cash Management Bill made it necessary for many school districts (and other affected local agencies) to increase the size and/or frequency of their cash flow borrowings during fiscal year 2010-11. Similar legislation was enacted for fiscal year 2011-12. The fiscal year 2011-12 legislation, however, set forth a specific deferral plan for K-12 education payments. Pursuant to such legislation, both the July 2011 and August 2011 K-12 payments of \$1.4 billion were deferred and the October 2011 payment of \$2.4 billion was deferred. In September 2011, \$700 million of the July deferral was paid, in January 2012, \$4.5 billion from the remaining July, August and October deferrals were paid, and in March 2012, \$1.4 billion was deferred and paid in April 2012.

The State Legislature enacted similar legislation for fiscal year 2012-13 that provides for \$1.2 billion of K-12 payments to be deferred in July 2012, \$600 million to be deferred in August 2012, \$800 million to be deferred in October 2012 and \$900 million to be deferred in March 2013. Of such deferred amounts, \$700 million of the deferral made in July 2012 is to be paid in September 2012, the remaining \$1.9 billion deferred in July, August and October of 2012 is to be paid in January 2013, and the \$900 million deferred in March 2013 is to be repaid in April 2013. Neither the Borrower nor the Authority can predict if additional deferrals will be made in fiscal year 2012-13 or in future fiscal years.

*Legal Challenge to State Funding Education.* On May 20, 2010, a plaintiff class of numerous current California public school students and the Alameda Unified School District, the Alpine Union School District, the Del Norte County Unified School District, the Folsom Cordova Unified School District, the Hemet Unified School District, the Porterville Unified School District, the Riverside Unified School District, the San Francisco Unified School District and the Santa Ana Unified School District, together with the California Congress of Parents, Teachers & Students, the Association of California School Administrators and the California School Boards Association filed suit in Alameda County Superior Court challenging the system of financing for public schools in California as unconstitutional. In *Robles-Wong, et al. v. State of California* (“Robles-Wong”), the plaintiffs seek declaratory and injunctive relief, including a permanent injunction compelling the State to abandon the existing system of public school funding and replace it with a system that is based on what is needed to meet the State’s program requirements and the needs of individual students. After a demurrer was sustained with leave to amend on January 14, 2011, a first amended complaint was filed by the plaintiff class on March 16, 2011. A demurrer with leave to amend on the first amended complaint was on July 26, 2011, however, the plaintiffs elected not to amend their complaint within the time provided by the court. Accordingly, the court dismissed all of the plaintiff’s claims and entered a judgment on November 3, 2011. The plaintiffs, on January 24, 2012, filed a notice of appeal to the Court of Appeal of the State of California, First Appellate District, from the judgment entered on November 3, 2011 dismissing the case in its entirety and all orders incorporated therein, including the order entered on July 26, 2011 sustaining the demurrer. Neither the Borrower nor the Authority can predict the likelihood of success of such appeal or how such appeal, if successful, could result in a change in how school funding of education is implemented in the State.

*Prohibitions on Diverting Local Revenues for State Purposes.* Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (ERAF) in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the State Legislature proposed an amendment to the State Constitution, which the State’s voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as “Proposition 22.”

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State’s control over local property taxes. One effect of this amendment will be to

deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of \$1.7 billion in local property tax revenues from local redevelopment agencies, which local redevelopment agencies have now been dissolved. Redevelopment agencies had sued the State over this latter diversion. However, the lawsuit was decided against the California Redevelopment Association on May 1, 2010. Because Proposition 22 reduces the State's authority to use or shift certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget in some years - such as reducing State spending or increasing State taxes, and school and community college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

*Future Budgets and Budgetary Actions.* The Borrower and the Authority cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the Borrower will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during fiscal year 2012-13 and in future fiscal years. Continued State budget shortfalls in fiscal year 2012-13 and future fiscal years could have a material adverse financial impact on the Borrower.

#### **Allocation of State Funding to Charter Schools**

Under Charter School Law, each charter school is calculated to have a "general purpose entitlement," which is based on the statewide average amount of State aid, local property taxes and other revenue received by school districts of similar type and serving similar pupil populations. The general purpose entitlement is calculated on a per student basis at each of four grade level ranges and is multiplied by the charter school's Average Daily Attendance ("ADA") in each grade level range.

Each charter school's general purpose entitlement is funded from local funding in lieu of property taxes and, to the extent such funding is insufficient to fulfill the entire entitlement, from money appropriated by the State from the State's general fund for education. The local share, which must be transferred in monthly installments to the charter school by the chartering school district in lieu of property taxes, is the average amount of property taxes per ADA received by the district, including charter school students, multiplied by the charter school's ADA.

In addition, each charter school is entitled to a "categorical block grant." School districts must qualify for categorical aid on the basis of the actual number of students in attendance who qualify for one or more special programs, and may only spend the aid for the restricted purposes of the program. Charter school students do not need to qualify individually for each program of certain categorical aid. Instead, a charter school "categorical block grant" is computed annually. Categorical block grant funding may be used for any purpose determined by the charter school. In addition, charter schools may apply for and receive separate categorical funds for many programs that are not included in the block grants, if otherwise eligible, but may not receive aid for programs exclusively or almost exclusively provided by a county office of education.

The following chart sets forth the per pupil allotment the School receives from the SDP for the current school year and the preceding three school years for both basic education students and special education students.



*Disclosure Best Practice Example*

**History of Per Pupil Funding – sourced from Janney Montgomery Scott**

History of Per Pupil Funding

	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>Average</b>
Basic Ed	\$7,101	\$7,708	\$7,708	\$8,088	\$8,184	\$8,608	\$8,773	\$8,024
Special Ed	\$14,309	\$16,760	\$16,760	\$17,658	\$17,789	\$18,512	\$19,422	\$17,316
Basic Ed (Annual Increase)	N/A	2.07%	6.35%	4.92%	1.18%	5.19%	1.90%	4.30%
Special Ed (Annual Increase)	N/A	7.25%	9.21%	5.36%	0.74%	4.07%	4.90%	5.86%

**Description of Alternative Funding Procedures – sourced from Janney Montgomery Scott**

**ALTERNATIVE FUNDING PROCEDURES**

Pursuant to Section 1725-A(a)(S) of the Charter School Law, a charter school may ask the “Sample State” Secretary of Education to redirect a school district’s per pupil payments when the applicable school district refuses to pay the charter school for educating students residing in the applicable school district. Walter Palmer School, Freire Charter School and several other charter schools within the SDP have successfully used this alternative funding procedure in conjunction with their disputes the SDP relating to enrollment caps (see “SCHOOL DISTRICT OF PHILADELPHIA - Legality of Enrollment Caps” above) in order to receive current school year per pupil payments for students enrolled in excess of the enrollment caps established by the SDP and contained in their respective charters.

The request must be in writing and include a copy of the invoices prepared in the format required by the PDE and certain documentation relating to the students to which such payments relate. A copy of the invoices must also be sent to the applicable school district. Once a charter school submits its subsidy-redirection request and such request has been approved, the charter school will receive payment from the PDE on the last Thursday of the month following the month in which the subsidy redirection request was submitted. At the end of the fiscal year, a charter school that has submitted redirection requests and received payments based on such requests must file a reconciliation report with the PDE to ensure that all payments have been made for the students educated at that charter school.

Certain information contained in this section entitled “Alternative Funding Procedure” relating to administrative proceedings has been derived from, among other things, the School’s discussions with SDP and PDE officials. Neither the School nor the Underwriter has independently verified such information.

**CONSTITUTIONAL AND STATUTORY PROVISIONS  
AFFECTING EDUCATION REVENUES AND APPROPRIATIONS**

**Limitations on Revenues**

Article XIII A of the “Sample State” Constitution. Article XIII A of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum ad valorem tax on real property to one percent of “full cash value,” and provides that such tax will be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the one-percent limitation does not apply to ad valorem taxes levied to pay interest and redemption charges on: (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the bond proposition. Charter schools may not conduct bond elections or issue bonds payable from property taxes, but may benefit from the proceeds of bonds issued by the school district in which the charter school is located.

Section 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the Fiscal Year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. The Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restored value of the damaged property. The “Sample State” courts have upheld the constitutionality of this procedure. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any ad valorem property tax except the 1% base tax levied by each County and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of local school districts.

Both the “Sample State” State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new “base year value” for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the “Sample State” Court of Appeal upheld the recapture practice in 2004, and the

State Supreme Court declined to review the ruling, leaving the recapture law in place. Charter schools are not directly dependent on local property taxes. To the extent local property taxes fund the general purpose entitlement, losses in local property tax income are required to be made up by the State.

### **Proposition 30**

On November 6, 2012, “Sample State” voters approved Proposition 30 (“Proposition 30”), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 1/4% of gross receipts of any retailer from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2017. Proposition 30 also imposes an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013, and before January 1, 2017, for storage, use, or other consumption in the State, at the rate of 1/4% of the sales price of the property. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending January 1, 2019, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 (over \$340,000 but less than \$408,000 for joint filers) (ii) 2% for taxable income over \$300,000 but less than \$500,000 (over \$408,000 but less than \$680,000 for joint filers) and (iii) 3% for taxable income over \$500,000 (over \$608,000 for joint filers).

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the “EPA”). Pursuant to Proposition 30, funds in the EPA will be allocated quarterly, with 89% of such funds provided to schools districts and 11% provided to community college districts. The funds will be distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than \$200 per unit of ADA and no community college district will receive less than \$100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that, the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

**Comprehensive Discussion on Proposed Statutory Changes – sourced from Janney Montgomery Scott**

**Proposed State Legislation on Charter Schools**

A variety of legislation has been introduced in the “Sample State” General Assembly affecting charter schools. Many of the proposed bills contain similar language regarding changes to the Charter School Law, however, to date, none of the proposed bills have been enacted into law. The following are among the bills currently under consideration:

Senate Bill 1: Passed by the “Sample State” State Senate on October 26, 2011, the legislation would establish a voucher system for low income children attending “low achieving schools” (which would not include schools that the student or his/her parents voluntarily chose to attend) that could be used to attend an alternative school (whether private or public). The vouchers (referred to as “Opportunity Scholarships” in the legislation) would be available to children in families earning up to 185% of the federal poverty threshold and would be funded through (and subject to) the annual appropriations process. The annual Opportunity Scholarship would be in the amount of (x) 100% of the Commonwealth’s per-pupil subsidy for the student’s district for students in families earning up to 130% of the federal poverty threshold and (y) 75% of the Commonwealth’s per-pupil subsidy for the student’s district for students in families earning above 130% but not more than 185% of the federal poverty threshold. In addition, the legislation would make the following changes to the Charter School Law: (1) increase initial charter terms from 3 to 5 years and increase renewal charter terms from 5 to 10 years; (2) prohibit charter schools from being subject to enrollment caps (including caps applicable to existing charter schools); (3) establish a statewide advisory committee to explore charter school funding issues and make recommendations to the “Sample State” General Assembly and the “Sample State” Governor; (4) reduce the conditions for converting a public school to a charter school by eliminating the need for parental and school employee approval; (5) require the per-pupil payments from the PDE to be made directly to charter schools (eliminating the school district as the pass-through vehicle); (6) establish that the Commonwealth’s Ethics Act applies to all charter school board trustees and employees; prohibit conflicts of interest with respect to such trustee and employees and require annual ethics filings; (7) standardize statewide the charter school application process and reporting requirement; (8) require annual independent audits of charter schools and public disclosure thereof; (9) establish procedure for charter school to apply for amendments to their charter during the charter term; and (10) adding a charter school administrator, cyber charter school administrator and a parent of a charter school student to the State Charter School Appeal Board.

On December 14, 2011, a version of Senate Bill 1 without the voucher/Opportunity Scholarship provisions but containing many of Senate Bill 1’s modifications to the Charter School Law (including the prohibition on existing and future caps on charter school enrollment) was brought up for a vote in the “Sample State” State House of Representatives through a proposed amendment to Senate Bill 560 (relating to “Sample State” military colleges). The “Sample State” State House of Representatives failed to pass the amendment by a vote of 105-90. It is unknown at this time whether legislation prohibiting or limiting the enforceability of charter school enrollment caps (whether in the form of Senate Bill 1 or otherwise) will be considered again by the “Sample State” State House of Representatives during this legislative session.

Senate Bill 904 and House Bill 1348. Introduced in the “Sample State” state Senate on March 25, 2011 and in the “Sample State” State House of Representatives on April 25, 2011, the legislation would repeal the current Charter School Law and replace it with a new law governing charter schools and cyber charter schools. The proposed new charter school law includes provisions that: (1) establish a state \_ commission on charter schools and cyber charter schools (the “Commission”) to oversee the creation, monitoring and renewal of charter schools and cyber charter schools; (2) make the Commission the authorizing entity for cyber charter schools; (3) allow other charter schools to be authorized by the Commission and institutes of higher education in “Sample State” as well as local school boards; (4) impose additional ethical restrictions on members of a charter school’s board and its administration, including restrictions on outside business relationships with the charter school or with other charter

schools; (5) allow for conversions of existing public schools to charter schools; (6) allow for initial charters that exceed five years and increase the term of renewed charters to ten years; (7) eliminate enrollment caps (including any existing caps); (8) allow for direct payment of charter school funding from the PDE (to the extent of Commonwealth payments to the applicable school districts); and (9) allow for the creation of multiple charter school organizations. Existing charter schools would continue to operate under their current charters but would be subject to the new law. Upon renewal, existing charters would be required to be amended to comply with the current law. An existing charter school would also be permitted to transfer its oversight to the Commission from the local school board.

House Bill 1657. Introduced in the “Sample State” State House of Representatives on June 14, 2011, the legislation includes provisions that: (1) create a new Office of Charter and Cyber Schools to oversee charter schools (including the ability to investigate claims of fraud or waste); (2) impose additional ethical restrictions on members of a charter school’s board and its administration, including restrictions on outside business relationships with the charter school or with other charter schools; (3) prohibit management, operating or educational service contracts from having compensation based upon school revenues; (4) allow charter schools to apply for direct payment of its funding from the PDE; (5) allow for the creation of multiple charter school organizations; (6) link renewal standards to academic achievement; (7) require charter schools to negotiate enrollment caps in good faith; and (8) limit unrestricted, unreserved fund balances at charter school to 8% to 12% of budgeted expenditures, depending on budget size, with any excess to be refunded to the applicable school districts.

#### **“Sample State” Governor’s Education Reform Agenda**

The Governor of “Sample State” announced his education reform initiative on October 11, 2011. Among his proposals was support for the charter school reforms in Senate Bill 1, Senate Bill 904 and House Bill 1348 described above. His initiative also includes a proposal, reflected in Senate Bill 1, to issue vouchers to students from low-income families attending the bottom five percent of public schools to be used to attend another public school, a private school or a charter school. The vouchers would entitle the student to an amount up to 100% of Commonwealth basic education funding for such student, depending on the student’s family income.

#### **Future Initiatives**

Article XIII A, Proposition 98, and Proposition 30 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time, other initiative measures could be adopted, further affecting State and local revenues for education, and the ability or obligation of these government agencies to expend revenues for charter school purposes.

## **CERTAIN RISK FACTORS**

Investment in the Bonds involves substantial risks. The following information should be considered by prospective investors in evaluating the Bonds. However, the following does not purport to be an exclusive listing of risks and other considerations which may be relevant to investing in the Bonds, and the order in which the following information is presented is not intended to reflect the relative importance of any such risks. Certain factors which could result in a reduction of revenues available to the Borrower and a corresponding reduction in payments made to the Authority by the Borrower are discussed herein.

A number of factors could have an adverse impact on the ability of the Borrower to generate sufficient revenues to meet its obligation to make loan repayments. The ability of the Borrower to generate sufficient revenues is dependent upon a number of elements, including "Sample State" State budget pressures, demand for charter schools, the ability of the Borrower to provide the educational services and classes demanded by parents or to attract students generally, changes in the level of confidence in the public school system in general or public charter schools in particular, competition, faculty recruitment, demographic changes, legislation, governmental regulations, changes in immigration policy, litigation and the Borrower's ability to achieve enrollment and fundraising levels. This, in turn, is affected by numerous circumstances both within and outside the control of the Borrower, including a continuation of favorable governmental policies and programs with respect to public charter schools (see "CHARTER SCHOOLS" herein); the competitive appeal and perceived quality of the Borrower's curriculum; the ability and energy of its faculty and administration; and the benevolence of its supporters. There can be no assurance given that revenues of the Borrower will not decrease. Any and all financial projections are only good faith estimates and are not intended as a representation or warranty as to the future financial condition of the Borrower.

See "APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT," and "APPENDIX C - AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR THE FISCAL YEAR ENDED JUNE 30, 2012."

### **General**

The Bonds are payable primarily from Payments which are derived from payments under the Loan Agreement made by the Borrower. The Borrower has also encumbered the Facility with the Deed of Trust as security for its obligation to make the payments under the Loan Agreement. No representation or assurance can be made that Gross Revenues will be realized by the Borrower in amounts sufficient to make the payments under the Loan Agreement.

THE BONDS ARE NOT AND SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, AND ARE NOT AND SHALL NOT BE DEEMED TO BE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE, OR OF ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFORE UNDER THE INDENTURE. NEITHER THE STATE NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE REDEMPTION PREMIUM, IF ANY, OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED THEREFORE UNDER THE INDENTURE. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER. NOTHING IN THE INDENTURE, THE ACT OR OTHERWISE IS AN UNDERTAKING BY THE AUTHORITY OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO FUND THE TRANSFERS DESCRIBED IN THE INTERCEPT NOTICE (DEFINED HEREIN) OR TO MAKE FUNDS AVAILABLE TO THE BORROWER IN ANY AMOUNT OR AT ANY TIME.

### **Possible Offsets to State Apportionment**

Section 41344 of the Education Code provides that if an audit or review requires the Borrower to repay prior year apportionments because of significant audit exceptions, including penalty payments ("Audit Exceptions"),

the Superintendent of Public Instruction (the “Superintendent”) and the Director of the Department of Finance (the “Director”), or their designees, will jointly establish a plan for the annual repayment of Audit Exceptions (the “Audit Repayment Plan”) which under certain circumstances can extend for a period of up to eight equal annual payments. The State Controller withholds from the State School Fund the amounts specified in the Audit Repayment Plan. If the Superintendent and the Director do not establish an Audit Repayment Plan, the State Controller withholds the entire amount of the Audit Exceptions from the next apportionment.

Included in the principal apportionment is the general-purpose entitlement for charter schools, which are the “funds subject to intercept” pursuant to Section 17199.4 of the Education Code. Specifically, the funds subject to intercept are the Borrower’s total general-purpose entitlement less the estimated in-lieu property taxes. This is also known as the “state aid” portion of the general purpose entitlement.

Because the apportionment is the sum of multiple program entitlement calculations as well as prior adjustments, the amount available may be more or less than the calculated amount of funds subject to intercept. The amount available for intercept is therefore the lesser of the monthly calculated funds subject to intercept and the amount of cash provided to the Borrower in the total principal apportionment payment schedule.

The State Controller may reduce the funding available in the principal apportionment payment schedule to offset for funds owing to the state. These offsets include, but are not limited to, the following: Charter School Revolving Loan (Education Code Section 41365), Class Size Reduction (Education Code Section 52124); Audit Repayment (Education Code Sections 41341, 41344); and Accounts Receivable (Government Code Section 12419.5), in addition to other possible authorized or required offsets, or additional offsets not yet authorized by legislation. None of the foregoing offsets are currently applicable to the Borrower’s principal apportionment.

### **Reserve Account**

The Indenture establishes the Reserve Account within the Revenue Fund for payment of principal of and interest on the Bonds to the extent the Payments are insufficient to make such payments. Although the Borrower believes such reserve to be reasonable and anticipates that the Payments will be sufficient to cover the debt service on the Bonds, there is no assurance that funds on deposit in the Reserve Account and future Payments will be sufficient to cover debt service on the Bonds.

### **Secondary Market**

There can be no assurance that there will be a secondary market for the purchase or sale of the Bonds, and there may be no market for the Bonds depending upon prevailing market conditions, the financial condition or market position of firms who make up the secondary market and the financial position and results of operations of the Borrower. The Underwriter is not obligated to create a secondary market for the purchase or sale of the Bonds. The Bonds and beneficial interests therein may be transferred, upon satisfaction of certain conditions, only to certain Qualified Institutional Buyers and Accredited Investors. See “NOTICE TO INVESTORS” and “TRANSFER RESTRICTIONS.” There is no guarantee that a secondary market for the Bonds will develop in the future. Therefore, investors should be aware that they might be required to bear the financial risks of an investment in the Bonds for an indefinite period of time, and/or that to the extent there is a secondary market for the Bonds, the secondary market price for the Bonds may be affected as a result of the transfer restrictions described herein. The Bonds should therefore be considered long-term investments in which funds are committed to maturity.

### **Purchases and Transfers of Bonds Restricted to Qualified Institutional Buyers and Accredited Investors**

As described in the “NOTICE TO INVESTORS” that precedes the Table of Contents of this Limited Offering Memorandum, the Bonds are to be sold (including in secondary market transactions) only to Qualified Institutional Buyers and Accredited Investors. The Indenture contains provisions limiting transfers of the Bonds and beneficial interests therein to Qualified Institutional Buyers and Accredited Investors. The face of each Bond will contain a legend indicating that the Bond is subject to transfer restrictions as set forth in the Indenture. The Bonds will be issued in minimum denominations of \$25,000 and any integral multiple of \$5,000 in excess thereof. In light of these restrictions, purchasers should not expect that there will be an active secondary market for the Bonds.



**Investors should be aware that they might be required to bear the financial risks of this investment for an indefinite period of time and/or that to the extent there is a secondary market for the Bonds, the secondary market price of the Bonds may be affected as a result of the restrictions.**

If a trading market for the Bonds develops, future trading prices of such Bonds will depend on many factors, including, among other things, prevailing interest rates and the market for similar instruments. Depending upon those and other factors, the Bonds may trade at a discount from their principal amount.

## **Tax Related Issues**

*Tax-Exempt Status of Interest on the Series 2014A Bonds.* The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2014A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Series 2014A Bond proceeds, limitations on the investment earnings of Series 2014A Bond proceeds prior to expenditure, a requirement that certain investment earnings on Series 2014A Bond proceeds be paid periodically to the United States and a requirement that the issuers file an information report with the Internal Revenue Service (the “IRS”). The Authority and the Borrower have covenanted in certain of the documents referred to herein that they will comply with such requirements. Failure by any of the foregoing to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Series 2014A Bonds as taxable, retroactively to the date of issuance of the Series 2014A Bonds.

*Maintenance of the Tax-Exempt Status.* The tax-exempt status of the Series 2014A Bonds depends upon the maintenance by the Borrower of its status as an organization described in section 501(c) (3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including the operation for charitable and educational purposes and avoidance of transactions which may cause the assets of either to inure to the benefit of private individuals.

In recent years, the IRS has increased the frequency and scope of its audit and other enforcement activity regarding tax-exempt organizations and, in particular, charter schools. As a result, tax-exempt organizations are increasingly subject to a greater degree of scrutiny. The primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in unlawful private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c) (3) tax-exempt status of nonprofit corporations, it could do so in the future. Loss of tax-exempt status by the Borrower could potentially result in loss of tax exemption of interest on the Series 2014A Bonds and of other existing and future tax-exempt debt of the Borrower, if any, and defaults in covenants regarding the Series 2014A Bonds and other existing and future tax-exempt debt, if any, would likely be triggered.

Less onerous sanctions have been enacted which focus enforcement on private persons who transact business with a tax-exempt organization rather than the tax-exempt organization, but these sanctions do not replace the other remedies available to the IRS as mentioned above.

*State Income Tax Exemption.* The loss by the Borrower of federal tax exemption might trigger a challenge to its State income tax exemption. Such event could be adverse and material.

*Unrelated Business Income.* In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their exempt activities and the generation of unrelated business taxable income (“UBTI”). The Borrower currently reports no UBTI. The Borrower may, however, participate in activities which generate UBTI in the future. If so, the Borrower believes it would properly account for and report UBTI; nevertheless, an investigation or audit could lead to a challenge which could result in taxes, interest and penalties with respect to unreported UBTI and in some cases could ultimately affect the Borrower’s tax-exempt status, as well as the exclusion from gross income for federal income tax purposes of the interest on the Series 2014A Bonds.

*Exemption from Property Taxes.* In recent years, State, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt corporations with respect to their real property tax

exemptions. The management of the Borrower believes that the Facility (see “APPENDIX A- CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT”), will be exempt from “Sample State” real property taxation.

### **Factors That Could Affect the Security Interest in the Pledged Revenues**

The Trustee’s security interest in the Facility may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or state bankruptcy or insolvency laws that may affect the enforceability of the Loan Agreement, (vi) rights of third parties in amounts not in the possession of the Trustee, and (vii) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the “Sample State” Uniform Commercial Code as from time to time in effect.

### **Construction Risks; Existing Leases; Seller Improvements**

The construction of the Facility is generally subject to all typical construction related risks. Such risks include, among others, labor disputes, defective building materials, schedule delays, shortages in various labor trades, fire or other property or casualty damage, unanticipated subsoil conditions and financial difficulties on the part of or disputes with a construction manager, key suppliers, contractors or subcontractors. There can be no assurance that construction problems of the types described above, or other problems, will not frustrate the planned completion of any part of the construction of the Facility.

The Borrower estimates that the Facility will be completed by January 1, 2014, to be occupied for the second half of the 2014-15 school year. No assurance can be given, however, that the Facility will be completed on schedule. Shortages, shortages of necessary labor, building materials or other supplies, on reasonable terms or on any terms, although currently not expected, could, if any were to arise, delay construction. Moreover, severe weather conditions could hamper construction speeds at various times of the year. Delays in the completion of the Facility, or the failure to complete the Facility at all, would have a material adverse impact on the Borrower’s operations, its financial status and the value of the collateral securing the Bonds.

The Borrower currently conducts its operations in a leased facility and no interest in any such property is pledged in support of the Bonds. In the event of a delay in completion of the Facility such that the Facility was not ready for occupancy in January 2014 as projected, the Borrower would need to continue to operate in its current location until completion of the Facility.

**Disclosure Best Practice Example**

**Inclusion of Key Information from Property Appraisal – sourced from Piper Jaffrey**

**Limited Nature of Real Estate Appraisal**

In December 2012 a real estate appraisal was completed with respect to the Queens Creek Campus. The Appraisal Report, dated December 26, 2012, as supplemented by a supplemental report dated January 21, 2013 (the “Sample School” Appraisal”), was prepared by KS Appraisal, Mesa, “Sample State” (the “Appraiser”). In October 2012 a real estate appraisal was completed with respect to the “Sample School” Campus. The Appraisal Report, dated October 25, 2012, as supplemented by a supplemental report dated January 21, 2013 (the “Casa Grande Appraisal”), was prepared by the Appraiser. The “Sample School” Appraisal and the “Sample School” Appraisal are collectively referred to herein as the “Appraisals”.

Each of the “Sample School” Appraisal and the “Sample School” Appraisal concluded that the “as is” and “as complete” market values of the land and facilities of the Series 2014 Facilities, under market conditions as of the date of the reports, are as follows:

Appraised Value – Leased Interest

		"Sample School" Campus		"Sample School" Campus	
Cost Approach	\$	13,110,000	\$	15,760,000	(as complete)
Sales Comparison	\$	12,925,000	\$	15,600,000	(as complete)
Income Approach - Market Value	\$	12,875,000	\$	15,525,000	(as complete)
Income Approach - Investment Value	\$	14,590,000	\$	17,400,000	(as complete)
Market Value (leased same or similar operation)	\$	12,900,000	\$	12,245,000	(as is)
			\$	15,625,000	(as complete)
Investment Value (based upon bond financing)	\$	14,590,000	\$	14,240,000	(as is)
			\$	17,400,000	(as complete)

Appraised Value – Fee Simple Interest

		"Sample School" Campus		"Sample School" Campus	
Market Value (leased same or similar operation)	\$	11,025,000	\$	9,920,000	(as is)
			\$	13,300,000	(as complete)
Investment Value (based on bond financing)	\$	12,695,000	\$	12,390,000	(as is)
			\$	15,135,000	(as complete)

Reference is made to the full Appraisals for the assumptions and basis on which such valuations were made. Copies of the Appraisals are available from the Underwriter during the offering period for the Series 2014 Bonds and from the Borrower following issuance of the Series 2014 Bonds.

The value of the “Sample School” Campus and the “Sample School” Campus as indicated in each Appraisal is only the opinion of the Appraiser at the time that the “Sample School” Appraisal and “Sample School” Appraisal were completed. The actual value of the “Sample School” Campus or the “Sample School” Campus in the future will vary from conclusions in the Appraisals, which variance may be material and adverse. In the event of a foreclosure of the Deed of Trust, the value of the “Sample School” Campus and the “Sample School” Campus in such event cannot be determined and may be substantially less than the value indicated in the “Sample School”

Appraisal and "Sample School" Appraisal for the "Sample School" Campus and the "Sample School" Campus. The Casa Grande Campus and the Queen Creek Campus, like other such buildings, require ongoing capital repairs and improvements to maintain their value and, although the Borrower intends to maintain the "Sample School" Campus and the "Sample School" Campus in good condition and a Repair and Reserve Fund will be established pursuant to the Indenture, no assurance can be given that the Borrower will have sufficient revenue to be able to maintain a regular capital improvements, program for the "Sample School" Campus and the "Sample School" Campus in the future.

## **Inability or Delay in Liquidating the Facilities at an Adequate Sale Price**

An Event of Default gives the Trustee the right to possession of, and the right to sell, the Series 2014 Facilities pursuant to a foreclosure sale under the Deed of Trust. The Series 2014 Facilities have been specifically designed and constructed for use as a school and may not be readily adaptable and marketable for other uses. Furthermore, while the Borrower considers both of the locations of the Series 2014 Facilities to be desirable for its purposes, there can be no assurance that potential purchasers will consider either of the locations desirable for their particular purposes. Accordingly, there can be no assurance that the sale of all or a part of the Series 2014 Facilities could be accomplished rapidly, or if at all. Any sale of any of the Series 2014 Facilities may require compliance with the laws of the State. Such compliance may be difficult, time-consuming, and/or expensive. Any delays in the ability of the Trustee to foreclose under the Deed of Trust could result in delays in the payment of the Series 2014 Bonds. Further, attempts to foreclose under the Deed of Trust or to obtain other remedies under the Deed of Trust, the Indenture, the Loan Agreement, or any other documents relating to the Series 2014 Bonds may be met with protracted litigation and/or bankruptcy proceedings, which could cause delays, and a court may decide not to order specific performance of covenants contained in such documents.

In addition, in the event of a sale of the Series 2014 Facilities or any portion thereof, the potential use of the Series 2014 Facilities and the number of potential users that may be interested in purchasing the Series 2014 Facilities or any portion thereof could be limited, and the sale price could thus be affected. The Borrower has received two appraisals of the Series 2014 Facilities.

*Maintenance of Value.* The Facility is located in a region that has experienced significant real property market volatility over the past several years. There can be no assurance that should the Borrower default in making the payments due under the Loan Agreement, the Facility could be foreclosed upon and sold for the amounts owed under the Loan Agreement.

*Hazardous Substances.* While governmental taxes, assessments and charges are common claims against the value of property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized is a claim with regard to hazardous substances. In general, the Borrower may be required by law to remedy conditions of the Facility relating to release of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws. "Sample State" laws with regard to hazardous substances are stringent and similar to certain federal acts. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) had or has anything to do with the creation or handling of the hazardous substance. The effect, therefore, should the Facility be affected by a hazardous substance, is generally to reduce the marketability and value of the parcel by the cost of remedying the condition. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling the hazardous substance. Any of these potentialities could significantly affect the value of the Project that would be realized upon a default and foreclosure.

*Foreclosure.* There are two methods of foreclosing on a deed of trust or mortgage under "Sample State" law, by nonjudicial sale and by judicial sale. Foreclosure under a deed of trust may be accomplished by a nonjudicial trustee's sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and election to sell and send a copy to the trustor, to any person who has recorded a request for a copy of the notice of default and notice of sale, to any successor in interest of the trustor and to certain other parties discernable from the real property records. The trustee then must wait for the lapse of at least three months after the recording of the notice of default and election to sell before establishing the trustee's proposed sale date and giving a notice of sale (in a form mandated by "Sample State" statutes). The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the trustee's sale by at least 20 days. Such notice of sale must be posted on the property and sent, at least 20 days prior to the trustee's sale, to the trustor, to each person who has requested a copy, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust and to certain other parties discernable from the real property records. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. The trustor, any successor in interest of the trustor in the trust property, or any person having a junior lien or encumbrance of record may, during the statutory reinstatement period, which extends to five days prior to the sale date, cure any monetary default by paying any delinquent installments of the debt then due under the

terms of the deed of trust and certain other obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys' and trustees' fees. Following a nonjudicial sale, neither the trustor nor any junior lienholder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor.

Should foreclosure under a deed of trust be sought in the form of a judicial foreclosure, it is generally subject to most of the delays and expenses of other lawsuits, and may require several years to complete. The primary advantage of a judicial foreclosure is that the beneficiary is entitled, subject to other limitations, to obtain a deficiency judgment against the trustor to the extent that the amount of the debt is in excess of the fair market value of the property. Following a judicial foreclosure sale, the trustor or its successors in interest may redeem the property for a period of one year (or a period of only three months if the proceeds of sale are sufficient to satisfy the debt, plus interest and costs). In addition, in order to assure collection of any rents assigned as additional collateral under the Deed of Trust, a receiver for the Facility may be appointed by a court.

*Damage, Destruction or Condemnation.* Although the Borrower will be required to obtain certain insurance against damage or destruction as set forth in the Loan Agreement and the Deed of Trust, there can be no assurance that any portion of the Facility will not suffer losses for which insurance cannot be or has not been obtained or that the amount of any such loss, or the period during which the Borrower, as a result of damage or destruction to the Facility, cannot generate revenues, will not exceed the coverage of such insurance policies.

If the Facility, or any portion thereof, is damaged or destroyed, or is taken in a condemnation proceeding, the proceeds of insurance or any condemnation award for the Facility, or any portion thereof, must be applied as provided in the Loan Agreement to restore or rebuild the Facility or to redeem Bonds. There can be no assurance that the amount of revenues available to restore or rebuild the Facility, or any portion thereof, or to redeem Bonds will be sufficient for that purpose, or that any remaining portion of the Facility will generate revenues sufficient to pay the expenses of the Borrower and the Loan Repayments.

*Seismic.* The Facility is located in a seismically active region of "Sample State". The occurrence of severe seismic activity could result in substantial damage to the Project, which could adversely affect the ability of the Borrower to operate the Project and/or to make the Loan Repayments and could adversely affect the value of the Project and the Facility. The Borrower is not obligated by the Loan Agreement to maintain earthquake insurance and there can be no assurance that the Borrower will obtain such coverage in the future.

*Environmental Risks.* There are potential risks relating to liabilities for environmental hazards with respect to the ownership of any real property. If hazardous substances are found to be located on a property, owners of such property may be held liable for costs and other liabilities related to the removal of such substances which costs and liabilities could exceed the value of the Facility or any portion thereof. See "THE PROJECT" herein.

A "Phase I Environmental Site Assessment" was conducted by "Sample Environmental Company", dated May 1, 2012 (the "Phase I Report"). See "APPENDIX A- CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT - THE PROJECT" for a description of the Phase I Report and its conclusions.

## **Bankruptcy**

The rights and remedies of the owners of the Bonds are subject to various provisions of the Federal Bankruptcy Code (the "Bankruptcy Code"). If the Borrower were to become the subject of a voluntary or involuntary bankruptcy case, there could be adverse effects on the owners of the Bonds. These adverse effects could include, but may not be limited to, one or more of the following.

The automatic stay provisions of the Bankruptcy Code could prevent (unless approval of the bankruptcy court was obtained) any action to collect any amount owing by the Borrower or any action to enforce any obligation of the Borrower. In particular, the Trustee may be prevented from foreclosing on the Borrower's Gross Revenues or any other collateral belonging to the Borrower. These restrictions may also prevent the Trustee from making payments to the owners of the Bonds from funds in the Trustee's possession during the pendency of the bankruptcy case.

Notwithstanding the provisions of state law regarding the Intercept, the bankruptcy court could determine that the Intercept is invalid in bankruptcy, and thus that the funds subject to the Intercept are property of the Borrower and subject to the claims of the Borrower's creditors. The Borrower intends to take the necessary actions so that if the funds subject to the Intercept are determined to be property of the Borrower, the Trustee will have a first priority perfected security interest in those funds. If, however, the Borrower fails to, or is unable to, take the necessary action to perfect the security interest, the owners of the Bonds may have no rights to the funds that are subject to the Intercept. Even if the Trustee does have a perfected security interest in the funds that are the subject of the Intercept, enforcement of that security interest may be subject to the automatic stay as discussed above. With the authorization of the bankruptcy court, the Borrower may be able to repudiate some or all of its agreements relating to the Bonds and stop performing its obligations (including payment obligations) under such agreements. Such a repudiation could also excuse the other parties to such agreements from performing any of their obligations. In addition, with the authorization of the bankruptcy court, the Borrower may be able to assign its rights and obligations under the agreements to which it is a party, to another entity, despite any contractual provisions prohibiting such assignment.

The Borrower may be able to cause any of its property that is subject to the lien of Indenture or any other agreement relating to the Bonds, possibly including the funds that are subject to the Intercept, to be released to it, free and clear of such lien, as long as the bankruptcy court determines that the rights of the Trustee and the owners of the Bonds will be adequately protected. The Borrower may be able to borrow additional money that is secured by a lien on any of its property (including any collateral that is subject to the lien of Indenture or any other agreement relating to the Bonds and possibly including the funds subject to the Intercept), which lien will have priority over the lien of Indenture or any other agreement relating to the Bonds, as long as the bankruptcy court determines that the rights of the Trustee and the owners of the Bonds will be adequately protected.

The Trustee may be required to return to the Borrower, as preferential transfers, any property that became subject to the lien of the Indenture or any other agreement relating to the Bonds within the 90 days (or in some cases one year) immediately preceding the filing of the bankruptcy petition. This could include funds that were the subject of the Intercept during the 90 days (or in some cases one year) prior to the bankruptcy filing. Payments previously made to the owners of the Bonds (possibly including payments made from funds that were subject to the Intercept) during the 90 days (or in some cases one year) immediately preceding the filing of the bankruptcy petition may be avoided as preferential payments, so that the owners of the Bonds would be required to return such payments to the Borrower.

The lien of the Indenture and the other documents relating to the Bonds may not attach to any property, including any revenues and possibly including any funds that are subject to the Intercept that the Borrower acquires after the filing of a bankruptcy petition.

The Borrower may be able, in a confirmed plan, without the consent and over the objection of the Authority, the Trustee and the owners of the Bonds, to alter the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Indenture, the Bonds, or any other agreement relating to the Bonds to which the Borrower is a party, and may be able to invalidate or eliminate the Intercept, as long as the bankruptcy court determines that the alterations are fair and equitable. There may be delays in payments on the Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the Borrower that could result in delays or reductions in payments on the Bonds, or result in losses to the owners of the Bonds. Regardless of any specific adverse determinations in a Borrower bankruptcy case, the fact of a Borrower bankruptcy case could have an adverse effect on the liquidity or value of the Bonds.

### **Factors Associated with the Borrower's Operations**

There are a number of factors affecting schools generally that could have an adverse effect on the Borrower's financial position and ability to make Loan Repayments necessary to make debt service payments on the Bonds. These factors include, but are not limited to: (i) failure to qualify for statutory reimbursement under state programs; (ii) increasing costs of compliance with federal, state or local laws or regulations, including, but not limited to, laws or regulations concerning environmental quality, work safety and accommodation of persons with disabilities; (iii)

taxes or other charges imposed by federal, state or local governments; (iv) the ability to attract a sufficient number of students; (v) changes in existing statutes pertaining to the powers of the Borrower and disruption of the Borrower's operations by real or perceived threats against the Borrower, its staff members or students; and (vi) decline in the reputation of the Borrower or the ability of the Borrower and its management to provide education desired and accepted by the population it serves. The Borrower cannot assess or predict the ultimate effect of such factors on its operations or financial results of its operations or on its ability to make Loan Repayments.



**Discussion of Risk of Reliance on Key Personnel – sourced from George K. Baum**

**Key Management**

The Charter School’s creation, curriculum and educational philosophy reflect the vision and commitment of members of the Charter School’s board of directors (the “Charter School Board”) and certain key personnel who comprise the upper management of the Charter School (“Key Personnel”). Loss of any Charter School Board members or Key Personnel could adversely affect the Charter School’s operations, its ability to attract and retain students and its financial results. For more information regarding the Charter School Board and its administrative staff and management see “THE CHARTER SCHOOL - The Board of Directors” and “-Administrative Staff and Management.”

## **Other Limitations on Enforceability of Remedies**

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

In addition to the foregoing, the realization of any rights under the Loan Agreement, the Indenture and the Deed of Trust upon a default depends upon the exercise of various remedies specified in the Loan Agreement, the Indenture and the Deed of Trust. These remedies may require judicial action which is often subject to discretion and delay. Under existing law, certain of the remedies specified in the Loan Agreement the Indenture and the Deed of Trust 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, the Indenture and the Deed of Trust. Accordingly, the ability of the Authority or the Trustee to exercise remedies under the Loan Agreement, the Indenture and the Deed of Trust upon an Event of Default could be impaired by the need for judicial or regulatory approval.

## **Specific Risks of Charter Schools**

*Charter School Law.* The Charter School Law is evolving. Amendments are made relatively frequently and legislative and public attitudes are still forming. Certain amendments effective in 2006 and later have been described elsewhere in this "Official Statement". It is likely that additional changes will be made in the future, some of which may be adverse to charter schools in general and to the Borrower in particular.

*Non-Renewal or Revocation of Charters.* The Charter School Law enables charter authorizers to grant five-year charters which may be renewed after evaluation and can be revoked at any time because of either educational non-performance or fiscal mismanagement. See "CHARTER SCHOOLS" herein. Management of the Borrower believes that it has stable relationships with its district charter authorizers, the County offices of education, and representatives on the State Board of Education, each of which, under appropriate circumstances, is authorized to grant charters under the Charter School Law. See "APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT- CHARTER" herein.

**Clearly State Expiration Date of Charter Contract – sourced from Piper Jaffrey**

**Additional Information on Risk of Charter Non-Renewal or Revocation**

The Charter School Contract between the Borrower and the ASBCS, is scheduled to expire June 21, 2021, which is before the final maturity date of the Series 2014 Bonds. See “APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT - THE CHARTER CONTRACT” herein. In accordance with the Charter School Act, the ASBCS is required to review the Charter School Contract every five years, and may revoke a Charter School Contract if it determines the Borrower has breached one or more provisions of such Charter School Contract. See “APPENDIX F - SUMMARY OF STATE CHARTER LAW”. While the Borrower does not anticipate any non- renewal or revocation of the Charter School Contract, there can be no assurance that the ASBCS will renew the Charter School Contract.

The Borrower, in connection with the Series 2009 Bonds, has covenanted to apply for one or more separate charter school contracts for the “Sample School” and any other charter school operated by the Borrower, including the “Sample School” School, so that the existing Charter School Contract will relate solely to the Maricopa School. The Borrower has made application for a separate charter contract for the “Sample School” School and anticipates that the ASBCS will grant such charter contract and the Borrower will make application in the future for the “Sample School” Campus for a separate charter contract. See “APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT - GOVERNANCE - Proposed Organizational Chart” herein.

No assurance can be given that the ASBCS will approve the Borrower’s application for separate charter contracts for the “Sample School” and the “Sample School”. Only if no application is filed will the Borrower be in default under the Series 2009 Loan Agreement. If the application is denied, the Schools and the Maricopa School will remain under the existing Charter School Contract, meaning that any breach of the Charter School Contract relating to the Maricopa School could impact the revocation, non-renewal, or expiration of the Charter School Contract with respect to the Schools.

**No Taxing Authority – sourced from Piper Jaffrey**

**No Taxing Authority/Borrower Dependence on State Payments**

The Borrower does not have any taxing authority and the Borrower is substantially dependent upon the State to continue to provide funding for public education. The obligation of the State to make State Payments or otherwise provide funds to the Borrower is conditioned upon the availability of funds appropriated or allocated for the payment of such obligation. If funds are not allocated and available for the continuance of a charter school contract, the Charter School Contract may be terminated by the ASBCS at the end of the period for which funds are available. No liability shall accrue to the ASBCS in such event, and the State shall not be obligated or liable for any future payments or any damages as a result of such termination. In certain circumstances, the State also may withhold a portion of the payments otherwise due a charter school if the charter school does not comply with applicable State laws and regulations. In the event the State were to withhold the payment of moneys from the Borrower for any reason - even a reason that is ultimately determined to be invalid or unlawful - it is possible that the Borrower would be forced to cease operations.

*Legal Challenges.* In addition to non-renewal or revocation, a charter may also be subject to challenge by an interested third-party. No assurance can be given that the Borrower's charter will not be subjected to legal challenge. Any failure to have a charter to operate a charter school in place would have a material adverse effect on the Borrower and its ability to generate revenues necessary to make payments under the Loan Agreement to the Borrower which are expected to provide sufficient revenues to satisfy the debt service requirements for the Bonds.

*Budgetary Constraints.* Charter Schools are funded primarily from State and local tax revenues and budgetary pressures at the State or local level may jeopardize future funding levels, which may adversely affect the ability of the Borrower to make its payments under the Loan Agreement. See "STATE FUNDING OF EDUCATION" above.

**Include Risk of Failure to Achieve or Maintain Enrollment – sourced from George K. Baum**

**Failure to Achieve or Maintain Enrollment**

The economic feasibility of the Charter School depends in large part upon its ability to attract sufficient numbers of children at its K-8 Facility to maintain sufficient enrollment in Kindergarten through eighth grade classes to meet the debt service requirements on the Bonds. The Charter School's ability to maintain enrollment depends, to some extent, on factors outside of its control. If the Charter School fails to maintain the enrollment levels it currently has, there may be insufficient Pledged Revenues available to pay debt service on the Bonds.

**Include Risk of Competition of Students – sourced from TD Securities**

**Competition for Students**

“Sample Charter School” primarily competes for students with other public, private and charter schools in “Sample City”. The charter school law requires that when the number of applications exceeds the seats available, a lottery must be conducted on or before April 1st. Those students not selected in the lottery are placed on the enrollment waiting list and are notified by mail as soon as seats become available.

For the 2012-13 academic year, “Sample Charter School” received a total of 238 applications for the 9th grade cohort (“Sample Charter School” only accepts applications for incoming 9th graders), and accepted its target number of 100 students. The charter school law allows for a 20% increase in cohort enrollment numbers within the total enrollment limit. Until the Project is completed, “Sample Charter School” will not be able to increase its current enrollment due to space limitations at its current facility.

“Sample Charter School” faces ongoing competition for students and there can be no assurance that “Sample Charter School” will continue to attract and retain, or increase the number of students that are needed to (i) meet its student enrollment projections for its new school facility or (ii) generate sufficient revenues (which are derived primarily from State Operating Aid Payments that are based on enrollment) to meet its Loan Agreement payments which the Issuer uses to pay debt service on the Series 2014 Bonds.

### **Risk of Reduction in ADA Funding**

Since the majority of funds for the Borrower's operations come from the State on the basis of ADA, the Borrower is subject to State funding reductions or restrictions that might affect all public school districts and charter schools. Among other such risks, over time the State may not increase ADA based funding commensurate with increases in the cost of school operations, or the State may even decrease ADA-based funding.

ADA-based funding is determined by actual attendance, and not by student enrollment data. Regardless of the statewide level of ADA-based funding, the Borrower is subject to loss of revenue if enrollment should decrease, or if average daily attendance should decrease even if enrollment remains steady, whether due to student illness, truancy or other factors. Such a loss of revenues could adversely affect the ability of the Borrower to make its payments under the Loan Agreement.

In addition, the Charter School Law prohibits a charter school from imposing fees or charges for its educational services. Therefore, the Borrower is dependent upon receipt of ADA funds philanthropic support. There is little the Borrower can do to increase revenues, other than to admit a larger number of students.

### **Claims and Insurance Coverage**

Litigation could arise from the corporate and business activities of the Borrower. Such litigation may result as a result of the Borrower's status as an employer. Many of these risks are covered by insurance, but some are not. For example, claims arising from wrongful termination or sexual molestation claims and business disputes may not be covered by insurance or other sources. Such claims may, in whole or in part, constitute a significant liability of the Borrower if determined or settled adversely, as may any additional claims for other torts, accidents, or environmental enforcement actions, to the extent such claims exceed the limits of applicable insurance coverage.

The Borrower covenants and agrees in the Loan Agreement that it will maintain, or cause to be maintained, property, general liability and business interruption insurance with respect to the Facility at levels set forth in the Loan Agreement. The Borrower is not obligated by the Loan Agreement to maintain earthquake insurance and there can be no assurance that the Borrower will obtain such coverage in the future. See "APPENDIX G - SUMMARY OF PRINCIPAL BOND DOCUMENTS - SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT" herein.

### **Risk of Noncontinued Philanthropy or Grants**

In the past, the Borrower has received insubstantial income from unrestricted gifts and donations or grants to supplement operating revenues to finance its respective operations and capital needs. Gifts, grants and donations are expected to continue. However, there can be no assurance that projections of this non- operating revenue will be realized or will not decrease, adversely affecting the financial condition of the Borrower.

### **Use of Facility**

No assurance can be given as to whether a challenge to the educational use of the Facility brought would result in an interruption of the Borrower's operations and have a material negative impact on the Payments. Any court order prohibiting the educational use of the Facility would entitle the Trustee to submit a claim on the lender's title insurance policy. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Deed of Trust on the Facility."

**Specific Information on any Conflicts of Interest by Schools along with Terms of Management Agreement – sourced from George K. Baum**

**Conflict of Interest between Borrower and Manager**

As described in more detail in “APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT - GOVERNANCE - The Board and Administration” and under the heading “RELATIONSHIPS AMONG THE PARTIES,” William H. Gregory is a member of the Borrower’s Board of Directors and a member of the Manager’s executive team, and Aaron Hale is a member of the Manager’s executive team and the Treasurer of each of the Schools. Messrs. Gregory and Hale were co-founders of the Maricopa School, and remain actively involved in the “Sample School” System of schools, including the Schools, through their ownership of the Manager with their respective spouses. As a member of the Borrower’s Board of Directors, Mr. Gregory is required to abstain from any Board discussion and votes relating to the compensation of the Manager pursuant to the Management Agreements. Nevertheless, given the substantial involvement of Messrs. Gregory and Hale (and their spouses) in both the Borrower and the Manager, a potential conflict of interest exists which conflict could lead, for example, to the Borrower’s Board granting undue deference to the recommendations of Messrs. Gregory and/or Hale on matters relating to the operation of the Schools. Such matters could include decisions in which the interests of the Borrower and the Manager are not identical and may even be opposed to each other. Although the Borrower has adopted a conflict of interest policy, there can be no assurance of the compliance with such policy, or that Messrs. Gregory or Hale will not be able to otherwise influence decision-making by the Borrower.



### **Terms of Management Agreements Shorter than Final Maturity Date of Series 2014 Bonds**

The Management Agreements between the Borrower and the Manager have an initial term expiring June 30, 2017, subject to the right of each party to terminate such Management Agreement with or without cause on or after June 30, 2015 by providing 30 days notice, which term is shorter than the period the Series 2014 Bonds are expected to be Outstanding. **The Borrower relies on the Manager for most aspects of operation of the Schools.** In the event either of the Management Agreements expires and is not renewed or is terminated in accordance with its terms, the Borrower would need to contract with another management company for operation and management of the related School, or assume such management itself. The Manager has agreed to subordinate the payment of its fees under the terms of the Management Agreements for the Schools to payment of debt service on the Series 2014 Bonds. In addition, under the terms of the Subordination Agreements, the Borrower cannot pay the Manager its fees under the Management Agreements if, as a result of such payment, the Borrower would not be in compliance with its minimum Days Cash on Hand requirement under the Loan Agreement at the end of a fiscal year. See “BONDHOLDERS’ RISKS - Subordination of Management Fees” in this “Official Statement”.

**Discuss Other Risks Including the Maintenance of Reputation and Credit Rating, if Applicable, Along with School Choice Initiatives, if Applicable – sourced from Piper Jaffrey**

**Maintenance of Credit Rating**

Standard & Poor’s Rating Services (“S&P” or the “Rating Agency”), has assigned a rating of “BB” to the Series 2014 Bonds. Certain information was supplied by the Borrower to the Rating Agency be considered in evaluating the Series 2014 Bonds, including information regarding State and federal funding sources and the operations of the Borrower and the Schools which are subject to change. See “RATING”. Such rating expresses only the views of the Rating Agency. There is no assurance that such rating will continue for any given period of time or will not be revised or withdrawn entirely by the Rating Agency if, in its judgment, circumstances so warrant. Any such downward revision in or withdrawal of such rating may have an adverse effect on the market price of the Series 2014 Bonds. See “RATING” in this “Official Statement”.

**Reputational Risk**

The Schools are subject to financial and other risks, which risks may differ from those of other private, charter or public schools. For example, changes in the reputation of the Borrower, the Manager, the Schools, the “Sample School” System, and/or the Schools’ faculty or student body, either generally or with projected enrollment levels, and may affect the Schools’ ability to attract students to projected enrollment levels, and may affect the Schools’ ability to attract quality teachers and staff at the competitive salaries. In addition, litigation brought against the Borrower, Manager, the “Sample School” System, other members of the “Sample School” System or the Schools by parents, civil authorities, students, or former or potential employees may have a materially adverse impact on the reputation of the Schools. There can be no assurance that these or other factors will not adversely affect the Borrower’s ability to generate adequate funds from the Schools to pay all Loan Payments when due.

**School Choice Initiatives**

States are increasingly considering and, in some states, enacting legislation that would expand the educational choices for its student residents beyond the traditional public school system. Charter schools are one such example. As charter schools become more commonplace, and as existing charter schools demonstrate a track record of providing an attractive educational choice, the number of charter schools may increase, which could lead to increased competition for existing charter schools such as the Schools. In addition, other education choice initiatives, including but not limited to a voucher system, whereby the state or local school district provides a voucher (typically for a fixed dollar amount) which a student’s parents can use to pay tuition at private, independent (including faith-based) schools have been implemented or are being considered in a number of states. A voucher program could provide significant competition to charter schools because parents who may not have previously been able to afford private tuition at a private, independent school would, under a voucher system, have financial resources available to cover all or a significant portion of the tuition cost at such private, independent schools. This is likely to increase demand for enrollment in private, independent schools and could adversely affect enrollment at other schools, including charter schools and traditional public schools. Management of the Borrower cannot determine the specific impact the implementation of such education choice initiatives in “Sample State” would have on the operation or financial performance of the Schools.

**Include Any Material Litigation or Absence Thereof – sourced from Piper Jaffrey**

**ABSENCE OF MATERIAL LITIGATION**

**The Authority**

To the knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending against the Authority seeking to restrain or enjoin the sale or issuance of the Bonds, or in any way contesting or affecting any proceedings of the Authority taken concerning the sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, the validity or enforceability of the documents executed by the Authority in connection with the Bonds, the completeness or accuracy of the “Official Statement” or the existence or powers of the Authority relating to the sale of the Bonds.

**The Borrower**

To the knowledge of the Borrower, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending against the Borrower seeking to restrain or enjoin the sale or issuance of the Bonds, or in any way contesting or affecting any proceedings of the Borrower taken concerning the sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, the validity or enforceability of the documents executed by the Borrower in connection with the Bonds, the completeness or accuracy of the “Official Statement” or the existence or powers of the Borrower relating to the sale of the Bonds. See also, “APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT - LITIGATION.”

## TAX MATTERS

### Tax-Exempt Bonds

In the opinion of “Sample Bond Counsel”, a Professional Corporation, San Francisco, “Sample State” (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Tax-Exempt Bonds is exempt from State of “Sample State” personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Tax-Exempt Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of corporations.

The difference between the issue price of a Tax-Exempt Bond (the first price at which a substantial amount of the Tax-Exempt Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Tax-Exempt Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Tax-Exempt Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Tax-Exempt Bond Owner will increase the Tax-Exempt Bond Owner’s basis in the Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the Tax-Exempt Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of “Sample State” personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income of interest (and original issue discount) on the Tax-Exempt Bonds is based upon certain representations of fact and certifications made by the Authority and others and is subject to the condition that the Authority complies with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Tax-Exempt Bonds to assure that interest (and original issue discount) on the Tax-Exempt Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Tax-Exempt Bonds. The Authority has covenanted to comply with all such requirements.

The amount by which a Tax-Exempt Bond Owner’s original basis for determining loss on sale or exchange in the applicable Tax-Exempt Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Tax-Exempt Bond premium, which must be amortized under Section 171 of the Code; such amortizable Tax-Exempt Bond premium reduces the Tax-Exempt Bond Owner’s basis in the applicable Tax-Exempt Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Tax-Exempt Bond premium may result in a Tax-Exempt Bond Owner realizing a taxable gain when a Tax-Exempt Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Tax-Exempt Bond to the Owner. Purchasers of the Tax-Exempt Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Tax-Exempt Bonds will be selected for audit by the IRS. It is also possible that the market value of the Tax-Exempt Bonds might be affected as a result of such an audit of the Tax-Exempt Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Tax-Exempt Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Tax-Exempt Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE TAX-EXEMPT BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF

FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE TAX-EXEMPT BONDS OR THE MARKET VALUE OF THE TAX-EXEMPT BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE TAX- EXEMPT BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE TAX-EXEMPT BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE TAX-EXEMPT BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE TAX-EXEMPT BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE TAX- EXEMPT BONDS.

Bond Counsel has relied on the opinion of the Law Office of “Sample Borrower’s Counsel”, Counsel to the Borrower, that the Borrower is an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Borrower regarding the use of the facilities financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Borrower within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Borrower does not address Section 513 of the Code. Neither Bond Counsel nor counsel to the Borrower can give or has given any opinion or assurance about the future activities of the Borrower, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service (“IRS”). Failure of the Borrower to be organized and operated in accordance with IRS’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest on the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Bond Counsel’s opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolutions and the Tax Certificates relating to the Tax-Exempt Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) on the Tax-Exempt Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than “Sample Bond Counsel”.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes provided that the Authority and the Borrower continue to comply with certain requirements of the Code, the ownership of the Tax-Exempt Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Tax-Exempt Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Tax-Exempt Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to Tax-Exempt Bonds.

A copy of the proposed form of opinion of Bond Counsel for the Tax-Exempt Bonds is attached hereto as APPENDIX J.

### **Taxable Bonds**

In the opinion of Bond Counsel, under existing statutes, regulation, rulings and judicial decisions, interest on the Taxable Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code but is exempt from State of “Sample State” personal income tax.

Except for certain exceptions, the difference between the issue price of a Taxable Bond (the first price at which a substantial amount of the Taxable Bonds of the same maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Taxable Bond (to the extent the redemption price at maturity is

greater than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method. The amount of original issue discount deemed received by the Beneficial Owner of a Taxable Bond will increase the Beneficial Owner's basis in the Bond. Beneficial Owners of Taxable Bonds should consult their own tax advisor with respect to taking into account any original issue discount on the Taxable Bonds.

The amount by which a Bond Beneficial Owner's original basis for determining loss on sale or exchange in the applicable Taxable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which the Beneficial Owner of a Taxable Bond may elect to amortize under Section 171 of the Code. Such amortizable bond premium reduces the Taxable Bond Beneficial Owner's basis in the applicable Taxable Bond (and the amount of taxable interest received) and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of Taxable Bond premium may result in the Beneficial Owner of a Taxable Bond realizing a taxable gain when a Taxable Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the Taxable Bond to the Beneficial Owner. The Beneficial Owners of the Taxable Bonds that have a basis in the Taxable Bonds that is greater than the principal amount of the Taxable Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

The federal tax and State of "Sample State" personal income tax discussion set forth above with respect to the Taxable Bonds is included for general information only and may not be applicable depending upon a Beneficial Owner's particular situation. The ownership and disposal of the Taxable Bonds and the accrual or receipt of interest with respect to the Taxable Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. **ANY FEDERAL TAX ADVICE CONTAINED HEREIN WITH RESPECT TO THE TAXABLE BONDS IS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES UNDER THE CODE. THE FEDERAL TAX ADVICE CONTAINED HEREIN WITH RESPECT TO THE TAXABLE BONDS WAS WRITTEN TO SUPPORT THE PROMOTING AND MARKETING OF THE TAXABLE BONDS. BEFORE PURCHASING ANY OF THE TAXABLE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR INDEPENDENT TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES RELATING TO THE TAXABLE BONDS AND THE TAXPAYER'S PARTICULAR CIRCUMSTANCES.**

A copy of the proposed form of opinion of Bond Counsel for the Taxable Bonds is attached hereto as APPENDIX K.

#### **APPROVAL OF LEGALITY**

The validity of the Bonds and certain other legal matters are subject to the approving opinion of "Sample Bond Counsel", San Francisco, "Sample State", Bond Counsel to the Authority. Complete copies of the proposed forms of opinion of Bond Counsel with respect to the Tax-Exempt Bonds and Taxable Bonds, respectively, are contained in APPENDIX J and APPENDIX K hereto. Certain other legal matters will be passed upon for the Borrower by its counsel, the Law Office of "Sample Borrower's Counsel", Quincy, "Sample State". Certain legal matters will be passed upon for the Authority by "Sample Bond Counsel", San Francisco, "Sample State", as Disclosure Counsel. Certain other legal matters will be passed upon for the Authority by the "Sample State Attorney General", Attorney General of the State. Certain legal matters will be passed upon for the Underwriter by its counsel, "Sample Underwriter's Counsel", "Sample State". The Attorney General undertakes no responsibility for the accuracy, completeness or fairness of this "Official Statement".

#### **RATING**

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") has assigned a rating of "BBB-" to the Bonds.

Such rating reflects only the views of S&P and any desired explanation of the significance of such rating should be obtained from S&P at the following address: Standard & Poor's, a Standard & Poor's Financial Services LLC business, 55 Water Street, 45th Floor, New York, NY 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price for the Bonds.

### **CONTINUING DISCLOSURE**

The Borrower and the Trustee, as Dissemination Agent, will execute and deliver a Continuing Disclosure Agreement pursuant to which it will, for the benefit of the Beneficial Owners of the Bonds, annually compile and deliver to the Trustee certain financial information and operating data relating to the operations of the Borrower (an "Annual Report"), and provide notices of the occurrence of certain enumerated events. These covenants have been made to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12 (the "Rule"). The Borrower has not previously entered into a continuing disclosure undertaking. A form of the Continuing Disclosure Agreement is attached hereto as APPENDIX H.

### **UNDERWRITING**

The Bonds are being purchased by "Sample Underwriter" (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$13,992,727.10 (being the principal amount of the Bonds, plus aggregate original issue premium of \$85,439.60, less an Underwriter's discount of \$247,712.50). The Bond Purchase Agreement ("Bond Purchase Agreement") pursuant to which the Bonds are being purchased by the Underwriter provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement. The Underwriter may offer and sell the Bonds to certain dealers, institutional investors, banks, and others at prices different from the prices stated on the inside cover page of this "Official Statement". The offering prices may be changed from time to time by the Underwriter. The Underwriter is not obligated to create a secondary market for the purchase or sale of the Bonds and there may, in fact, be no market for the Bonds depending upon prevailing market conditions, the financial condition or market position of firms who make up the secondary market and the financial position and results of operations of the Borrower.

### **MISCELLANEOUS**

The foregoing and subsequent summaries and descriptions of provisions of the Bonds and the Indenture and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof, and reference is made to said documents for full and complete statements of their provisions. The appendices attached hereto are a part of this "Official Statement". Copies, in reasonable quantity, of the Indenture and Loan Agreement may be obtained during the offering period upon request directed to the Underwriter.





**APPENDIX A**

**CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT  
TABLE OF CONTENTS**

**GENERAL ..... A3**  
    Related Charter Schools ..... A3  
    Educational Philosophy ..... A4  
    History and Expansion Plan ..... A5  
    Prior Projects ..... A7  
    Current Facilities of the Borrower..... A8

**CHARTER ..... A8**  
    Borrower’s Charter..... A8  
    Payments to Chartering Agencies ..... A8  
    Revocation of Charters..... A9

**MISSION AND VISION ..... A9**

**CURRICULUM AND EXTRACURRICULAR ACTIVITIES ..... A9**  
    Language Arts ..... A9  
    Mathematics ..... A9  
    Visual and Performing Arts..... A10  
    Foreign Languages ..... A10  
    Leadership ..... A10  
    Character Education ..... A10  
    Community Service..... A10  
    Clubs ..... A11  
    Special Education..... A11

**GOVERNANCE AND ADMINISTRATION..... A12**  
    Board of Directors..... A12  
    Relationship Among the Parties ..... A13

**FACULTY ..... A14**  
    Faculty and Personnel ..... A14  
    Teacher Retention ..... A14  
    Employee Benefits ..... A15  
    Retirement Programs..... A16

**THE PROJECT ..... A17**  
    Description of the Project..... A17  
    Phase 1 Environmental Site Assessment of the Facility..... A18

**APPLICATION PROCESS ..... A20**  
    Enrollment..... A20  
    Historic and Projected Enrollment ..... A21  
    Student Retention ..... A22  
    Waiting List..... A23  
    Demographics..... A24

<b>PARENTAL INVOLVEMENT</b> .....	<b>A25</b>
PTO Mission Statement.....	A25
Volunteer Requirement .....	A25
<b>SERVICE AREA AND COMPETING SCHOOLS</b> .....	<b>A26</b>
<b>TRANSPORTATION</b> .....	<b>A27</b>
<b>ACADEMIC ACHIEVEMENT INDICATORS</b> .....	<b>A28</b>
Standardized Test Scores.....	A28
School Accountability .....	A30
Recent Accomplishments .....	A39
<b>OTHER OBLIGATIONS</b> .....	<b>A41</b>
<b>BUDGETING AND ACCOUNTING</b> .....	<b>A41</b>
Principles.....	A42
Internal Controls.....	A43
Conflicts of Interest Policy.....	A44
<b>INSURANCE</b> .....	<b>A46</b>
<b>LITIGATION</b> .....	<b>A46</b>
<b>FINANCIAL INFORMATION</b> .....	<b>A46</b>
State Aid Payments and ADA .....	A46

APPENDIX A

“Sample Charter School”

GENERAL

Disclosure Best Practice Example

**Comprehensive List of Affiliated Schools Including Service Area, Grades Offered, Enrollment, Waiting List, Charter Expiration Date and Socioeconomic Information – sourced from Baird**

“Sample Charter School” Education (“Sample Charter School”) is a Texas non-profit corporation which was incorporated on February 29, 1996 to operate schools and other educational support operations that benefit schools. “Sample Charter School” is an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). “Sample Charter School” currently operates 26 charter schools on 12 campuses throughout the Dallas/Fort Worth, Texas area, expects to open an additional charter school on an additional campus in 2013-14 (collectively with “Sample Charter School’s existing charter schools, the “Charter Schools”) and is currently pursuing an expansion plan that contemplates opening additional charter schools in the future. “Sample Charter School” maintains a central office located at 1825 Market Center, Dallas, Texas (the “Central Office”). The Charter Schools operate (or, in the case of the schools opening in 2013-14, will operate) pursuant to five open-enrollment charters granted by the Texas State Board of Education (the “State Board of Education”) under Subchapter D, Chapter 12 of the Texas Education Code (the “Charter Schools Act”). The respective schools operating under a particular charter contract collectively constitute a “District.” “Sample Charter School” is governed by a single board of directors (the “Sample Charter School” Board) which is supported by regional advisory boards of directors (together, the “Advisory School Boards”). See “Governance and Management” below.

**Related Charter Schools**

Below is a sample table depicting the type of information that should be portrayed for each “Sample Charter School” in a network of charter schools:

Charter School Name (Year Opened and Present Address)	Service Area (City served)	Grades Offered	Current Enrollment	Current Waitlist	Charter Expiration Date	Maximum Enrollment	Approx. Free and Reduced Price Lunch %
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## Educational Philosophy

“Sample Charter School’s” model for education delivery is grounded in a culture of high expectations for students and staff; dedicated school leaders and teachers who strive to do whatever it takes to move students forward; extended hours and school years to ensure more “time on task”; rigorous use of data to set and monitor organization, school and classroom goals; a formal “Road to College” program and dedicated staff who strive to ensure that “Sample Charter School” students are accepted to and can pay for college; and a board structure with the “Sample Charter School” Board and supporting Advisory School Boards to support local culture and focus on school and student performance.

Each “Sample Charter School” shares a common set of values that “Sample Charter School” refers to as “the 7 Rs.” Each of the “Rs” answers a question relevant to the commitment “Sample Charter School” makes to its students, parents and community:

- What do we bring to our work?
  - We **rigorously** prepare each student to enter and subsequently to succeed in college. It is the overriding objective in everything we do.
  - We expect everyone within our community to maintain high ethical standards, both in their professional responsibilities and in their personal lives.
- How do we engage in our work?
  - We are uncompromising in our dedication to making “every second count” when impacting the life of a child. Our focus on real time is an important part of our success.
  - We foster relationships through our grade-level teams, as well as with the smaller school enrollment. We seek and retain the best teachers and leaders.
  - We continually reflect and improve by examining our results and sharing successful approaches across our schools, while seeking out best practices from other institutions.
  - We will use curriculum that is relevant to the lives of our students, teaching them to be world citizens and to mutually work for the greater good.
- Why do we do our work?
  - We will measure and report our results on an ongoing basis.

**Detailed Discussion of School History and Expansion Plan, if Applicable – sourced from Baird**

**History and Expansion Plan**

“Sample Charter School” opened its flagship school, North Hills Preparatory, in 1997. During the period from 2002 through 2007-08, “Sample Charter School” sought to build on that success in selected communities which it identified for growth: Irving, East Dallas, West Dallas, Southwest Dallas and Arlington. During this period, “Sample Charter School” opened Peak Preparatory (serving East Dallas), Summit International Preparatory (serving Arlington), Hampton Preparatory (serving Southwest Dallas) and Williams Preparatory (serving West Dallas).

During the second phase of “Sample Charter School’s” growth (during the past few years), “Sample Charter School” has focused on increasing its presence in East Dallas, West Dallas, and Irving. In 2010-11, “Sample Charter School” opened Laureate Primary Preparatory (serving East Dallas) and Heights Preparatory (serving West Dallas). In 2011-12, “Sample Charter School” opened Infinity Preparatory (serving Irving) and Pinnacle Preparatory (serving East Dallas). In 2012-13, “Sample Charter School” expanded into Fort Worth with two campuses, “Sample Charter School” Mighty Preparatory and “Sample Charter School” Meridian Preparatory, as well as a secondary campus in downtown Dallas for Laureate Preparatory.

The current focus of “Sample Charter School’s” expansion, as articulated in “Sample Charter School’s” expansion plan, is to continue to build out additional schools in its current target markets of Dallas, Irving, Arlington and Fort Worth. The expansion plan contemplates that in Dallas, Irving and Arlington, “Sample Charter School” will mostly be opening primary “feeder” schools that will feed “Sample Charter School” middle and high schools. The plan contemplates that “Sample Charter School” will have generally two smaller primary schools that feed into a single, larger middle/high school. “Sample Charter School” believes that by having comparatively larger middle and high schools, it will be able to offer a broader academic and extracurricular program attractive to middle and high school students.

In total, over the next three years “Sample Charter School’s” expansion plan contemplates opening additional schools that will bring its total enrollment up to approximately 13,000 students. However, this expansion plan is subject to ongoing review by “Sample Charter School”, and “Sample Charter School” expects to execute on the plan only if and to the extent it determines that then-prevailing conditions support particular expansions. “Sample Charter School” will take financial considerations into account as part of its diligence surrounding particular expansions and its expansion plan generally, and expects to pursue particular expansions in particular targeted areas if it determines:

- traditional public school performance in the targeted area is below the State average;
- there is a high proportion of minority and low-income students, with significant discrepancies between the performance of minority and low-income students and their Anglo and more affluent peers;
- there are few high quality education options available to students;
- there is evidence of community support for an “Sample Charter School” school; and
- there is reason to believe that the philanthropic community would be interested in supporting the expansion.

Regarding philanthropic support, “Sample Charter School” has received significant support from the community in establishing its Charter Schools. For example, “Sample Charter School’s” establishment of Peak Preparatory was made possible in part by a \$10 million donation of land and facilities by the Communities Foundation of Texas. “Sample Charter School’s” establishment of Summit International Preparatory was made possible in part through a contribution in the form of a favorable long- term lease of a former private school campus on an approximately 18-acre site. “Sample Charter School” established Hampton Preparatory after acquiring a former satellite campus of the University of North Texas, in part through its receipt of a \$1million donation from the Harold Simmons Foundation. “Sample Charter School” established Williams Preparatory after acquiring two

buildings previously used as software manufacturing facilities, in part through its receipt of a \$2.5 million donation from the Todd and Abby Williams Foundation. National foundations such as the Michael & Susan Dell Foundation, the Gates Foundation and the Charter School Growth Fund have been supporters of “Sample Charter School”. This school year “Sample Charter School” was able to expand into the Fort Worth community through generous gifts from the Rainwater Foundation, the Sid Richardson Foundation and the Amon G. Carter Foundation. “Sample Charter School” was also able to open Laureate Preparatory secondary school with a \$1.5 million donation from the Matejek Family Foundation.

**Discussion of School's Experience Financing its Facilities – sourced from Baird**

**Prior Projects**

“Sample Charter School” has undertaken various prior borrowings, including Notes issued as security for (i) Beasley Higher Education Finance Corporation Education Revenue Bonds (“Sample Charter School” Education) Series 2005A and Series 2005B (the “Series 2005 Bonds”), Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (“Sample Charter School” Education) Series 2007A and Series 2007B (the “Series 2007 Bonds”), (iii) Clifton Higher Education Finance Corporation Education Revenue Bonds (“Sample Charter School” Education) Series 2010A and Series 2010B (the “Series 2010 Bonds”); and (iv) North Texas Education Finance Corporation Education Revenue Bonds (“Sample Charter School” Education) Series 2012A, Series 2012B and Series 2012Q (the “Series 2012 Bonds”). “Sample Charter School” has also issued to Capital One, N.A., a Taxable Master Indenture Note (“Sample Charter School” Education) Series 2011A (the “Capital One Note”). See “PLAN OF FINANCE - Prior Notes Secured by the Amended and Restated Master Indenture.”

- “Sample Charter School” used the proceeds of the Series 2005 Bonds (which are to be refinanced by the Series 2014 Bonds) to finance (i) projects at the North Hills Preparatory campus (consisting of purchasing land, constructing additional facilities, and refinancing the Fate Higher Education Facilities Corporation Education Revenue Bonds, Series 2000, the proceeds of which financed the original acquisition of the North Hill Preparatory campus), and (ii) minor renovation and improvement projects at the Peak Preparatory campus.
- “Sample Charter School” used the proceeds of the Series 2007 Bonds to finance (i) additional facilities at the Peak Preparatory campus, and (ii) renovations to and acquisition of equipment for the Summit International Preparatory, Hampton Preparatory and Williams Preparatory campuses.
- “Sample Charter School” used the proceeds of the Series 2010 Bonds to finance various improvements and expansion projects including (i) high school building expansion at North Hills Preparatory, (ii) a new middle school and high school building at Summit International Preparatory, (iii) a new primary school building at Williams Preparatory, (iv) leasehold improvements to buildings at Laureate Primary Preparatory and Heights Preparatory and, (v) improvements at Mighty Preparatory and Meridian Preparatory. “Sample Charter School” also used proceeds of the Series 2010 Bonds to refinance notes originally issued to finance the acquisition of the Hampton Preparatory and Williams Preparatory sites and facilities.
- “Sample Charter School” used the proceeds of its currently outstanding draw against the Capital One Note to finance the acquisition of the Williams Feeder School.
- “Sample Charter School” used the proceeds of the Series 2012 Bonds to finance and refinance various improvements and expansion projects including (i) a student activity center at North Hills Preparatory, (ii) a new primary school building at Peak Preparatory, (iii) a new primary school building at Summit International Preparatory, (iv) a new “cafenasium” and portables at Hampton Preparatory, (v) a new secondary classroom building at Heights Preparatory, (vi) a new classroom building and gymnasium at Might Preparatory, and (vii) new main buildings at Infinity Preparatory, Pinnacle Preparatory, Laureate Secondary Preparatory, Meridian Preparatory.

## **Current Facilities of the Borrower**

*Main Campus.* The Borrower currently fully occupies an approximately 24,000 square foot Class A Office Building just under a mile from the proposed new site, at 4183 Avenida de la Plata, within the territorial limits of the District, and within the covenant of the Rancho del Oro Technology Park Association. The building has 14 classrooms, additional smaller classrooms for special education, individualized instruction and electives, two large meeting rooms, and administrative offices. The school operates under a Conditional Use Permit that allows occupancy of 200 students at a time.

*“Sample Charter School”.* The Borrower also rents an approximately 11,000 square foot industrial office building located approximately 5 miles from the site of the Facility in the neighboring City of Vista to accommodate its Personalized Learning Center (the “PLC”). The school operates this building under a Minor Use Permit that allows occupancy of 300 students at a time. The Borrower anticipates keeping this space after the proposed new site is completed to continue serving its Track C students who live closer to the PLC than to the Oceanside location, or who cannot be served at the new premises due to space considerations. The PLC may also be used to house additional credentialed teachers assigned to additional Track C students as need expands. As Track C students further exceed the student capacity at the proposed new Facility and the PLC, the Borrower would be able to lease further school space in proximity to new students, provided that the appropriate use permits are granted. All such facilities would require minimal tenant improvements and would operate under short term leases.

The Charter School Law explicitly permits non-classroom-based charter schools to operate multiple resource centers, such as the PLC identified above, in the county in which a charter school’s granting agency is located. The “Sample State” Department of Education has provided legal guidance that schools such as the Borrower may also operate multiple resource centers in counties adjacent to the county in which the charter school’s granting agency is located, to provide educational services and classroom options to non-classroom-based pupils. Thus, the Borrower is not currently limited in the number of resource centers it may operate within the County of San Diego and adjacent counties.

## **CHARTER**

### **Borrower’s Charter**

The Borrower operates under a charter agreement originally granted by the District in November of 2002, renewed on May 13, 2008, and most recently renewed again on December 11, 2012 (the “Charter”). The Charter currently expires on June 30, 2018. Although the Borrower expects the charter to be renewed on or before June 30, 2018, there can be no assurance that the renewal will be on similar terms. The District is responsible for overseeing the Borrower and its compliance with the terms of the Charter and applicable laws. Upon the delivery of the Bonds, the Borrower expects to deliver a certificate substantially to the effect that, to the best of its knowledge, it remains in compliance with the terms of the Charter.

### **Payments to Chartering Agencies**

In accordance with the memoranda of understanding entered into with the District, the Borrower paid fees to the District in the fiscal years ended June 30, 2010, 2011 and 2012 totaling \$34,750, \$40,174 and \$44,916, respectively. Such fees were assessed for supervisorial oversight of the Borrower by the District.

### **Revocation of Charters**

Under certain circumstances, the charter for the Borrower may be revoked in accordance with State law. See the “Official Statement” under the caption “CHARTER SCHOOLS-Charter Revocation.” As described above, the District has recently renewed the charter of the Borrower and the Borrower believes that it has a stable relationship with the District. See the “Official Statement” under the caption “CERTAIN RISK FACTORS-Specific Risks of Charter Schools-Non-Renewal or Revocation of Charters” for a discussion of the risks associated with the revocation of a charter for the Borrower.



## MISSION AND VISION

*Mission Statement.* The following is the Borrower’s mission statement:

“Sample Charter School” will continue to provide access to all students and will assist parents in their mission to inspire their children to acquire a love and passion for learning. We will develop exemplary young citizens from all backgrounds with superior academic proficiency, equipped with analytical thinking skills, and virtuous character, all built upon a solid foundation of knowledge. These young citizens will, in turn, become an asset to our community and nation.

*Vision Statement.* The following is the Borrower’s Vision Statement:

“Sample Charter School” is dedicated to developing self-motivated, life-long learners through this six-fold vision:

1. To pursue academic excellence with an emphasis on mastery of the “basics” through clearly defined high content standards in all core subjects. We will employ systematic teaching and review of rules, as well as applications of math, phonics, grammar, and spelling.
2. To encourage individualized learning through smaller workshop size, understanding of learning styles, the teaching of specific study strategies, and the understanding of each child’s uniqueness.
3. To maximize the effectiveness and enjoyment of learning through multi- sensory, interactive methods of instruction inclusive of critical thinking skills, use of innovative teaching methods and materials based on proven and successful developmental research, and integrated teaching across the curriculum.
4. To provide elements of a content-rich classical education that inspires excellence by employing examples of literature, music, and art, which have stood the test of time and been widely recognized as the very best.
5. To give high priority to an enriched curriculum inclusive of computer science technology, art, music, drama, and Spanish.
6. To foster the development of the whole child through strong parental involvement with an emphasis on positive character development.

## CURRICULUM AND EXTRACURRICULAR ACTIVITIES

The Borrower provides a variety of educational programs available to meet the needs of its students. See “GENERAL -Educational Programs” above for a description of the Borrower’s Track A, Track B and Track C programs combining independent study, non-classroom-based study, and in-class instruction, all under the supervision of “Sample State” credentialed teachers. Additional features of the Borrower’s curriculum are described in the following paragraphs.

### Language Arts

Students work on daily lessons in language arts. Language arts include reading, writing, grammar, and spelling. Students are evaluated on their learning with the usage of Measures of Academic Progress (“MAPS”) assessment and Standardized Testing and Reporting (“STAR”) testing. Struggling readers can also be evaluated by the school’s Reading Specialist. The Reading Specialist works with students on all tracks to provide reading support and assistance to ensure that all students become better readers, and also to provide feedback and resources for the teachers and parents.

### Mathematics

Students in grades kindergarten through eighth grade have daily math lessons and homework. For those students on Tracks A and B, math lessons are taught in the classroom on workshop days and at home on non-workshop days. Students who are advanced may attend a more challenging math class, while those who need more help may attend a math class at the appropriate level. Parents are given all of the necessary materials to complete math instruction on home days. Students on Track C complete math at home full time. Some math instruction is available through First in Math, an online interactive math site. Also, a Math Specialist is available on campus three

days a week to provide tutoring in individual and small group settings. Parents are welcome to attend such sessions. In addition to classroom and online math support, the Borrower hosts an annual math festival to bring math from the textbook to real-life.

### **Visual and Performing Arts**

The Borrower provides an interactive multi-media art education program, known as “Meet the Masters” which is based on the lives and works of well-known master artists. Students are introduced to a famous artist and learn of their history and their particular art technique. Working with parent volunteers, “Sample Charter School” provides an engaging learning experience for all students in kindergarten through eighth grade. Five to seven artists are introduced each year and students learn about their lives and practice creating their own masterpiece by using the same or similar skill.

Music instruction is provided for students in grades K-8 as students experience opportunities for vocal, instrumental, and rhythmic expressions. This music program explores basic music skills and concepts. Students in 5th grade begin instrumental instruction in the recorder, with an emphasis on reading music and performance skills. We also have a middle-school world drumming group. Chorus may be offered as a lab based on student interest.

The Borrower is well-known for its musical theatre program. Full stage productions are held annually as students in grades five through eight act, sing, and dance as they bring their best to the stage. Past productions have included Once Upon a Mattress, Seussical the Musical, The King and I, and Honk Jr. Musical theatre is available as an after school program.

### **Foreign Languages**

The Borrower provides opportunities for students on all tracks to study foreign languages through an online curriculum.

### **Leadership**

Leadership courses are designed for middle school students and teach the value of becoming self-motivated leaders with integrity and purpose. The core curriculum has been adapted from the Situational Self Leadership program by The Ken Blanchard Companies, and through employees of the Blanchard Companies who are parents in our program. There are three years of leadership training available, beginning in 6th grade. Leadership is an optional class that meets weekly and has a homework and community service requirement. Students are encouraged to initiate opportunities to serve their family, school, and community throughout the school year.

### **Character Education**

“Sample Charter School” incorporates character education into daily lessons, emphasizing the 8 Keys of Excellence through specialized lessons, assemblies, workshops, speakers, community service, and field trips. The 8 Keys of Excellence were developed by the Quantum Learning Network.

### **Community Service**

Students participate in a number of community service projects annually. They are invited to participate in on-campus drives to collect clothing, food, or items to support troops overseas. Students host collections to benefit The San Diego Food Bank, North County Solutions for Change, and Pasta for Pennies. Additional charities the school serves include St. Jude’s Hospital and Brother Beano. Beach clean-ups are also scheduled during the school year.

Additional celebrations occur throughout the year including Dads and Donuts, Moms and Muffins, Thinker, Communicator, and Achiever evening receptions, annual art festival and writing celebrations. Middle school students participate in our Science Olympiad and middle school Science Fair.

## Clubs

Students who attend the Borrower enjoy a variety of club activities. All clubs are sponsored by volunteer parents. Students can participate in several sports clubs that meet throughout the year, which include running, volleyball, basketball, soccer, flag-football, and surfing. Other clubs have also been established, which include First Lego League (an introductory robotics program), Spanish, art, chess, and brain highways. There is also a park club that meets once a month to provide play time for younger siblings. Clubs are based on student interest and parent volunteers.

## Special Education - sourced from Piper Jaffrey

Special Education programming is delivered in alignment with State and federal law and in alignment with “Sample School” System’s instructional philosophy. The Special Education Department consists of a Director (employed by the Manager), two program specialists, a school psychologist, six speech therapists, three occupational therapy staff members, a physical therapist, two counselors, and 13 special education teacher case managers.

The following tables show the special education population for the 2012-2013 school year. Across all “Sample School” Schools, 384 students are currently eligible for special education services, and another 21 students are in the process of being evaluated.

Percentage of Special Education Students

Campus	Students	Special Education Percentage
Avondale	42	5.7%
“Sample School”	53	5.7%
Chandler (Athlos)	64	6%
Laveen	21	4%
Maricopa	72	6.4%
NW Tucson	82	8.3%
“Sample School”	50	6%

Type of Impairment	% of Special Education Students
Speech/Language Impairment	38%
Specific Learning Specific Learning	36%
Specific Learning Disability	36%
Other Health Impairment	10%
Autism	7%
Developmental Disability	3%
Emotional Disability	2%
Hearing Impairment	2%
Vision Impairment	<1%
Intellectual Disability	<1%
Multiple Disabilities	<1%
Orthopedic Impairment	<1%

The “Sample School” Schools also offer a Child Study Team Process that includes pre-referral interventions in school, tutoring before and after school, and a home study plan to engage parents. The successful outcomes of this program have reduced the number of referrals for special education testing.

**GOVERNANCE AND ADMINISTRATION**

*Disclosure Best Practice Example*

**Inclusion of a Detailed Discussion of Board of Directors that Includes Years of Service and Term Expiration – sourced from George K. Baum**

**The Board of Directors**

The governing board of the Charter School (the “Board”) provides governance over the affairs of the Charter School, with management and leadership of the Charter School delegated to the Executive Director and the Director of Human Resources. The Board may exercise all such powers of the Charter School as are permitted by state and federal law and those powers authorized by the Institute through the Charter.

The Charter School’s Articles of Incorporation and Bylaws provide that it is governed by no more than a seven member Board. Five of the members of the Board will be parents or guardians of a pupil enrolled in the Charter School. No more than two of the members will be educational or business professionals from the community at large and cannot be directly engaged in financial or business dealings with the Charter School at the time of election or during their tenure on the Board or have any past or present relationships to the Charter School. In addition, community members cannot have students enrolled at the Charter School while they are in office. Additionally, members of the Board may not serve as employees, contractors or vendors of the Charter School and only one parent or guardian of a student or multiple students may serve as a member of the board. Board members are elected annually by the parents or guardians of the children attending the Charter School, and active employees. Such parent or guardian is allowed one vote for each “Sample Charter School Management Company” position. Members of the Board are required to receive eight hours of training in governance practice every school year. Board members cannot serve more than two complete three year terms. Vacancies on the Board are to be filled as set forth in the Charter School’s Bylaws. The Board holds at least one regular meeting per month, in addition to special meetings as needed. Directors do not receive any compensation for service to the Charter School. The following table sets forth certain information regarding the Charter School Board:

<b>Board Member</b>	<b>Title</b>	<b>Affiliation</b>	<b>Term</b>	<b>Expiration</b>
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A summary listing should be followed by detailed biographies of each board member as well as key staff members.

**Discussion of Relationship Among Parties– sourced from Piper Jaffrey**

**Relationships Among the Parties**

Certain of the Key Personnel of the Borrower and the Manager are related to each other. The wife of William Gregory is the aunt of Aaron Hale. Nathan Schlink (“Sample Charter School Management Company” of the Borrower) is married to one of Aaron Hale’s sisters. Cory Theobald (“Sample Charter School Management Company” of the Borrower) is married to another of Aaron Hale’s sisters. Edgar Gregory (Director of New Construction for the Manager) is the father of William Gregory (Secretary of the Board of the Borrower and an owner of the Manager). Brandi Adams-Bressler (Program Administrator of the Manager) is the wife of William Bressler (Superintendent of the Manager). William Gregory and his wife, Laura Gregory (the aunt of Aaron Hale), and Aaron Hale and his wife, Becky Hale, are the owners of the Manager. Laura Gregory and Becky Hale are also both employed by the Manager as Public Relations Coordinator and Events Coordinator, respectively. The Borrower also owes amounts to certain board members and related parties, primarily Aaron Hale and William Gregory. See also “APPENDIX A - CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT – GOVERNANCE “-The Board,” and “- Administration” and “- OTHER INDEBTEDNESS” in this “Official Statement” for a discussion of the roles and relationships of certain Key Personnel.

## FACULTY

### Faculty and Personnel

The student-teacher ratio for the Borrower is approximately 25:1. The Borrower plans to add three more full-time teachers next year with the expansion of another grade level, and several additional teachers upon the school's move into its new building. Teacher salaries range from \$30,000 to \$63,000. The retention rate for teachers at the Borrower is approximately 90%.

The Borrower employs 46 full-time employees and 20 part-time employees, including 31 full-time teachers and 9 part-time teachers. Of these teachers, all hold bachelor's degrees and 16 hold masters degrees. Currently, 24 teachers have more than five years of teaching experience.

#### Faculty "Sample Charter School"

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
Administrators	28	27	30	34	37
Professional Support	1	1	4	4	5
Other Staff Members (full-time and part-time)	<u>15</u>	<u>6</u>	<u>12</u>	<u>13</u>	<u>13</u>
Total Employees	50	42	60	68	72
Experience					
Beginning Teachers	0	0	0	0	0
1-5 Years	3	2	5	17	17
Avg Years of Service of Teachers in excess of 5 Years of Experience	15.2	10.1	16.8	9.5	10.8
Avg Student/ Teacher Ratio*	25/1	25/1	25/1	25/1	25/1

\* Under its charter, the Borrower is required to maintain an average student/teacher ratio of no greater than 25 to 1.

### Teacher Retention

The table below gives the percentage of teachers still employed by the Borrower in June at the end of each school year for school years 2007-08 through 2011-12.

#### Teacher Retention Rate 2007-08 through 2011-12 School Years "Sample Charter School"

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
% of Teachers Retained from Prior School Year	100%	96%	100%	96%	93%

**Discuss Employee Benefits and Whether Teachers Belong to a Union - sourced from George K. Baum**

**Employee Benefits**

The Borrower's full-time employees are entitled to health and certain other benefits as part of their compensation. The Borrower pays for an HMO plan with a \$25 deductible and dental and vision plans for each employee, and allows employees to select coverage for their dependents. The Borrower also currently subsidizes the cost of dependent coverage in the amount of 20%. The Borrower also provides short-term disability and life insurance policies for interested employees.

The Borrower cannot predict at this time whether contributions toward employee benefits will increase in the future, but does not expect such increases to have a material adverse effect on the Borrower's ability to make loan repayments. The Borrower does not provide any post-employment benefits to its employees who resign or retire from employment.

## Retirement Programs

The information set forth below regarding the STRS and PERS programs, other than the information provided by the Borrower regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the Borrower or the Underwriter.

*STRS.* All full-time certificated employees, as well as certain classified employees, are members of the State Teachers' Retirement System ("STRS"). STRS provides retirement, disability and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. The Borrower is currently required by such statutes to contribute 8.25% of eligible salary expenditures, while participants contribute 8% of their respective salaries. The State also contributes to STRS, currently in an amount equal to 2.791% of teacher payroll. The State's contribution reflects a base contribution of 2.017% and a supplemental contribution of 0.774% that will vary from year-to-year based on statutory criteria.

The Borrower's contribution to STRS was \$104,430 for fiscal year 2009-10, \$116,808 for fiscal year 2010-11, and \$130,539 for fiscal year 2011-12. The Borrower has budgeted \$131,767 as its contribution to STRS for fiscal year 2012-13.

*PERS.* Classified employees working four or more hours per day are members of the Public Employees' Retirement System ("PERS"). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended, with the Public Employees' Retirement Laws. The Borrower is currently required to contribute to PERS at an actuarially-determined rate, which is 11.417% of eligible salary expenditures for fiscal year 2011-12, while participants contribute 7% of their respective salaries.

The Borrower's contribution to PERS was \$54,440 for fiscal year 2009-10, \$69,580 for fiscal year 2010-11, and \$79,106 for fiscal year 2011-12. The Borrower has budgeted \$102,995 as its contribution to PERS for fiscal year 2012-13.

*State Pension Trusts.* Each of STRS and PERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from each of STRS and PERS as follows: (i) STRS, P.O. Box 15275, Sacramento, "Sample State" 95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, "Sample State", 94229-2703. Moreover, each of STRS and PERS maintains a website, as follows: (i) STRS: [www.calstrs.com](http://www.calstrs.com); (ii) PERS: [www.calpers.ca.gov](http://www.calpers.ca.gov). However, the information presented in such financial reports or on such websites is not incorporated into this Official Statement by any reference.

Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. The following table summarizes information regarding the actuarially-determined accrued liability for both STRS and PERS.

### Funded Status

STRS (Defined Benefit Program) and PERS as of the June 30, 2011 Valuation Date (Dollar Amounts in Millions)

<b>Plan</b>	<b>Accrued Value</b>	<b>Value of Trust</b>	<b>Unfunded Liability</b>
PERS	\$58,358	\$45,901	(\$12,457)
STRS	208,405	143,930	(64,475)

Unlike PERS, STRS contribution rates for participant employers and employees, as well as the State's base contribution rate, are set by statute and do not currently vary from year-to-year based on actuarial valuations. In recent years, the combined employer, employee and State contributions to STRS have been significantly less than



actuarially required amounts. As a result, and due in part to investment losses, the unfunded liability of STRS has increased significantly. This unfunded liability is expected to continue to increase in the absence of legislation requiring additional or increased contributions. The Borrower can make no representations regarding the future program liabilities of STRS, or whether the Borrower will be required to make larger contributions to STRS in the future. Additionally, the Borrower cannot provide assurances that the Borrower's required contributions to PERS will not increase in the future.

## THE PROJECT

### Description of the Project

The Borrower will use a portion of the proceeds of the Bonds to finance the (i) acquisition of an approximately 3.63-acre site on which the charter school facilities will be located (the "Property") and (ii) acquisition, construction, expansion, rehabilitation, furnishing and equipping of certain charter school educational facilities to be located at 4096 Calle Platino, Oceanside, "Sample State" (collectively the "Facility"), which will constitute the campus of the Borrower upon completion thereof.

The Facility is expected to include two new buildings totaling approximately 40,000 square feet of space, housing 20 classrooms, a library, administrative offices, teacher offices a multi-purpose room, and related support space, in addition to parking facilities, play areas, and a courtyard. When completed, the Facility is expected to accommodate 400 full time equivalent students (for a total of up to 800 students in both Track A and Track B). In addition, the Facility is expected to accommodate up to 750 Track C students with a student teacher ratio of 25 to 1.

The Borrower has received approval by the City of Oceanside Planning Director for the Facility, which approval became final on January 7, 2013.

The Borrower plans to move its operations to the Facility in January of the 2013-14 school year. The Borrower's planning process included a review of the new campus, financial considerations regarding the terms on which such building will be available, as well as general financial diligence regarding the effect operating the Facility would have on its ongoing operations and financial condition.

*Property Acquisition.* The Borrower has entered into a purchase agreement (the "Property Purchase Agreement") for the Property. The purchase price of the Property is \$1,953,666. As of December 17, 2012, the Borrower has paid non-refundable escrow deposits of \$187,500 toward the purchase of the Property. The entire deposit is to be applied to the purchase price of the Property upon acquisition, which is expected to occur concurrently with the issuance of the Bonds.

*Construction Contract.* The Borrower has executed a guaranteed maximum price contract dated as of January 9, 2013 (the "Construction Contract"), with Competitive Edge Construction, Inc. (the "Contractor") for \$6,794,468. Payment and performance bond are required to be provided by the Contractor in connection with construction of the Facility.

*Development Agreement.* The Borrower has entered into a development services agreement with Competitive Edge Development, LLC (the "Developer") for project management and other construction-related services for the development of the Facility. The Developer is a controlled affiliate of the Contractor. BLX has been retained by the Developer as its financial advisor in connection with the Project.

*Budget.* The budget for the Project is estimated by the management of the Borrower as follows:

Land Cost	\$1,953,666
Cost of Issuance	573,945
Development Costs	1,192,851
Jurisdictional Fees	778,895
Insurance	55,000
Soft Cost Contingency	93,193
Hard Costs	6,794,468
Hard Cost Contingency	679,447
FFE	465,000
<b>Total</b>	<b>\$12,586,465</b>

*Appraisal.* “Sample Appraiser” (the “Appraiser”), appraised the site and the planned educational buildings comprising the Facility. In that connection, the appraiser prepared a Self-Contained Appraisal Report, which assumed an effective date of December 1, 2012 (the “Appraisal Report”). The Appraisal Report estimates that the “as proposed to be constructed” (hypothetical) market value of the fee interest of the site and the improvements of the Facility as of December 1, 2012, was \$14,500,000, assuming construction of the Facility as provided in the plans, specifications and construction details provided to the Appraiser. The Appraisal Report states that the Appraiser reserves the right to alter and/or amend the above opinions in the event that the Facility and overall development of the site is significantly different from the plans and specifications provided.

The Appraisal Report states that because the Facility will be a school facility, the Appraiser attempted to value the Facility on a series of criteria which included value of the underlying land as finished; cost to construct based on developer cost pro forma; cost to construct based on the Appraiser’s evaluation using the Marshall Valuation Service; value of the school facility as compared to other school facility sales in “Sample State”; and evaluating the proposed subject facility in comparison to nationwide school costs as depicted in the DCD (Design Cost Data), a national publication that has been published since 1958.

The summary of the Appraisal Report contained in this section is not meant to be exhaustive, and reference should be made to such report for a complete recital of its terms. A complete copy of the appraisal is available upon request from the Underwriter. The value of the Facility as estimated in the Appraisal Report represents only the opinion of the Appraiser, and only as of the effective date of the appraisal. The Appraiser has not been engaged to update or revise the estimates contained in the Appraisal since its date. See “CERTAIN RISK FACTORS.”

### **Phase I Environmental Site Assessment of the Facility**

“Sample Environmental Engineer” performed a Phase I Environmental Site Assessment of the Property. In that connection, “Sample Environmental Engineer” prepared a report dated May 1, 2012 (the “Phase I Report”). The Phase I Report states its purpose was to provide a brief description of the Property, its location and surroundings and to identify, to the extent feasible, associated Recognized Environmental Conditions and to create a list of the potential human and environmental receptors. The term “Recognized Environmental Condition” means the presence or likely presence of any hazardous substances or petroleum products on a property under conditions that indicate an existing release, a past release or the material threat of a release of hazardous substances or petroleum products into structures on the property or into the ground, groundwater or surface water of the Property. The Phase I Report indicates that “Sample Environmental Engineer” understands that such report will be used by the Borrower to perform due diligence with respect to environmental conditions at the Property and that the Borrower will rely upon the Phase I Report in connection with its decision to purchase the Property.

The Phase I Report advises that any environmental assessment cannot eliminate uncertainty about a property’s potential for recognized environmental conditions and that all Phase I Environmental Site Assessments are inherently limited in the sense that conclusions are drawn and recommendations developed from information obtained from limited research and site evaluation.

The Phase I Report states that the assessment revealed no evidence of Recognized Environmental Conditions in connection with the Property.

The Phase I Report speaks only as of its date, and “Sample Environmental Engineer” has not been asked to perform any additional assessment since the time of the assessment described in the Phase I Report. Further, the Phase I Report is subject to the limitations specified in such report. Potential investors must refer to the complete Phase I Report for a full understanding of such limitations, and for additional information pertinent to the assessment. Copies of the Phase I Report are available upon request from the Underwriter. Costs incurred by the Borrower with respect to environmental remediation or liability could adversely affect its financial condition. See “RISK FACTORS-Environmental Regulation.”

**Include Specifics of Application Process – sourced from TD Securities**

**APPLICATION PROCESS**

The Law requires that enrollment in the Charter School is open to any “Sample City” public school student. There is no centralized system for enrollment for “Sample City’s” charter schools. The Law requires charter schools to give preference to returning students, siblings of students already enrolled in the school and students who reside in the local School District in which the charter school is located. In addition, charter schools are permitted to give preference to students at risk of academic failure. This includes English Language Learners (ELL) and special education students, students who are eligible for free or reduced price lunch, and students who did not score at the proficient level on the standardized State tests.

**Enrollment**

The Charter School accepts applications for enrollment all year round. The Law requires that when the number of applications exceeds the seats available, a lottery must be conducted on or before April 1st. Those students not selected in the lottery are placed on the enrollment waiting list and are notified by mail as soon as seats become available. The Charter School received a total of 300 applications for the 2012-13 9th grade cohort, and accepted its target number of 100 students. The Charter law allows for a 20% increase in cohort enrollment numbers within the total enrollment limit.

The Charter School only accepts applications for incoming 9th graders. The Charter School is currently unable to increase its enrollment due to space limitations at the Current Facility.

*Disclosure Best Practice Example*

**Include Comprehensive Historical and Projected Enrollment by Grade – sourced from Baird**

Historical and Future Projected Enrollment by Grade Level

<b>Grade</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>
K	44	44	43	45	44	44	44
1	44	43	44	44	44	44	44
2	44	45	44	44	44	44	44
3	46	45	45	46	46	46	46
4	44	49	46	47	46	46	46
5	44	46	46	46	46	46	46
6	48	47	48	47	48	48	48
7	24	47	45	48	48	48	48
8	24	47	44	48	48	48	48
<b>Subtotal</b>	<b>362</b>	<b>413</b>	<b>405</b>	<b>415</b>	<b>414</b>	<b>414</b>	<b>414</b>
9	-	47	67	56	100	100	100
10	-	-	55	83	70	100	100
11	-	-	-	70	70	100	100
12	-	-	-	-	60	75	75
<b>Subtotal</b>	<b>-</b>	<b>47</b>	<b>122</b>	<b>209</b>	<b>300</b>	<b>375</b>	<b>375</b>
<b>Totals</b>	<b>362</b>	<b>460</b>	<b>527</b>	<b>624</b>	<b>714</b>	<b>789</b>	<b>789</b>

Source: the Borrower. Information through 2008-09 is actual data as of IDOE’s September ADM date (typically the second Friday of September) in those school years. For 2009-10, and thereafter, data presented is projected by the Borrower and is subject to the general qualifications and limitations described under “INTRODUCTION - Forward-Looking Statements.”

**Include Details on Historical Student Retention by Grade – sourced from TD Securities and PNC**

**Student Retention**

“Sample Charter School’s” Charter requires the Charter School to maintain student retention rates of at least 85%, as measured by data collected on average daily attendance. The following table shows the number of “Sample Charter School” students who returned for the academic years 2006-2012.

Retention Rates

<b>Year</b>	<b>Students</b>	<b>Retained</b>	<b>Percentage</b>
2000-2001	346	350	99.15%
2001-2002	380	376	99.47%
2002-2003	395	395	100%
2003-2004	417	358	85.85%
2004-2005	423	363	85.68%
2005-2006	454	389	85.68%
2006-2007	487	431	88.50%
2007-2008	512	500	97.84%
2008-2009	548	539	98.35%
2009-2010	570	564	98.94%
2010-2011	685	661	96.49%
2011-2012	917		

**Include Details on Historical Waiting List by Grade – sourced from D.A. Davidson**

**Waiting List**

The School is a public charter school, and must abide by the state regulations for admitting students. The School accepts new applications year-round; however, only applications received by the deadline are eligible for the lottery in April. Applications received after the deadline are automatically placed at the end of the waiting list (the “Wait List”). All new applicants are placed into our lottery database, and no discrimination is made based on race, religion, gender, or disability. The number of openings for each year is based on the number of students who will not be returning the following year. According to its charter, the School must give preference to siblings, as well as staff, board of trustee, and founders’ children. Every spring a lottery is held and students are randomly drawn to fill the vacant student slots, and the remaining names are placed onto our waiting list. Although the School would like to accommodate every family, students cannot be accepted under any other circumstances.

Applications for enrollment at the School consistently exceed the number of spaces available at each grade level. Students that cannot be accommodated in a grade are placed on a waiting list should space year:

The following chart shows the wait list by grade for the past 2 years and for the 2012-13 school

Waitlist from the 2010-11 to 2012-13 School Year

<b>School Year</b>	<b>5th</b>	<b>6th</b>	<b>7<sup>th</sup></b>	<b>8th</b>	<b>Total</b>
2010-11	43	37	57	14	151
2011-12	42	60	48	1	151
2012-13	49	60	68	19	196

Each year, all applicants are required to reapply. This assures that an accurate and current waitlist is maintained.

## Demographics

It is the Borrower’s policy to provide equal educational opportunity for all students. The Borrower does not discriminate on the basis of race, color, creed, religion, national origin, sex, marital status, parental status, status with regard to public assistance, disability, sexual orientation or age.

The following tables show the Borrower’s demographics for the 2008-09 through 2011-12 school years.

Student Enrollment by Ethnic Group<sup>(1)</sup>  
“Sample Charter School”

Racial/Ethnic Category	School Year			
	2008-09	2009-10	2010-11	2011-12
African American	22	8	18	12
American Indian or Alaska Native	0	0	4	3
Asian	28	20	40	33
Filipino	13	5	12	10
Hispanic or Latino of Any Race	66	87	93	105
Pacific Islander	10	10	9	7
White	445	445	521	591
Two or More Races <sup>(2)</sup>	0	40	1	34
Not Reported	<u>7</u>	<u>0</u>	<u>0</u>	<u>7</u>
<b>Total</b>	<b>591</b>	<b>615</b>	<b>698</b>	<b>802</b>

<sup>(1)</sup> Enrollment data varies from figures shown in prior tables due to difference in reporting period.

<sup>(2)</sup> Not report prior to 2009.

Source: “Sample State” Department of Education.

Student Enrollment by Special Populations  
“Sample Charter School” Charter School

Special Population	School Year			
	2008-09	2009-10	2010-11	2011-12
Free and Reduced Price Lunch	94	143	109	124
Special Education (IEP, 504, SST)	25	28	35	42

Source: “Sample State” Department of Education.



**Include Discussion of Parental Involvement – sourced from Piper Jaffrey**

**PARENTAL INVOLVEMENT**

Each “Sample School” School has its own Parent-Teacher Organization (“PTO”). The PTO on each campus is comprised of elected officers, chairs, committees, and members made up of “Sample School” System families. Each organization is its own 501(c) (3) organization and is governed by a set of bylaws as well as “Sample School” System policies and procedures. Through various programs the PTOs work to help the “Sample Schools” in many ways through volunteerism, community building activities and fund raising.

**PTO Mission Statement**

The mission of the Parent Teacher Organization is to work collectively as involved Parents, Teachers, Administrators, and Staff in a unified effort to support the “Sample School”, in its programs, activities, and events as it pursues educational excellence. For the unified spirit of the school, it will promote volunteerism, community building, and fund raising efforts under the direction of the “Sample School” Schools’ policies, procedures, and directions as it relates to the PTO.

**Volunteer Requirement**

Parents are urged to volunteer a minimum of 12 hours per year at their child’s school. The requirement can be satisfied through a variety of activities. Volunteering can include time in the classroom, after school activities, the school carnival, or preparing teacher materials from home. In order to volunteer in the classroom, parents must successfully complete a fingerprint clearance background check through the “Sample State” Department of Public Safety and be approved by administration prior to being allowed in the classroom. In addition, parents must also sign a Parent Volunteer Agreement and adhere to the Volunteer Dress Code.

**Include Comprehensive Discussion on Service Area and Competing Schools – sourced from TD Securities**

**SERVICE AREA AND COMPETING SCHOOLS**

The vast majority of the Charter School’s students live in the Bronx, New York. Thirty percent of our students have attended public schools in the District and reside in the District. However, students are enrolled from neighboring public school district as well. The Charter School competes for students with other “Sample City” Public High Schools and select private parochial schools in the Bronx and Northern Manhattan. “Sample Charter School” is located in one of the most economically disadvantaged neighborhoods in “Sample City”, and serves a high-needs population. For example, 84% of the students are eligible for the “Free and Reduced Price” meals.

The demographic data collected for the Charter School shows that our student population is predominantly Latino (77 %); African American (20%); Asian or Pacific Islander (2%); and White (1%). In addition, the student population is linguistically and ethnically diverse with varying levels of proficiency and literacy in English. In addition, approximately 12% are English Language Learners and 10% are identified as Special Education students.

Below is a chart of the Charter School’s enrollment based on student district of residence.

**Public School District of Residence  
Students Attending the Charter School**

	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-20</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
District 10	65	138	200	209	218	217	244
%	85%	81%	88%	65%	70%	72%	78%
Outside District 10	11	32	27	113	94	84	69
%	15%	19%	12%	35%	30%	28%	22%

**Discussion of Transportation Options – sourced from George K. Baum**

**TRANSPORTATION**

The Charter School is one of the only charter schools within the State that provides transportation for its students to and from school and has the largest fleet of buses among charter schools in the State. The Charter School has a transportation department that currently manages a fleet of 15 buses. The buses are not collateral for the Bonds. See “CHARTER SCHOOL FINANCIAL INFORMATION – Other Financial Obligations.”

**Include Comprehensive Reporting of Multiple Years of Academic Results on Mandated Tests Disaggregated by Grade and by Subject as Appropriate Together with Host District, State, and Neighboring School Comparables; Also Include a Discussion of Adequate Yearly Progress (AYP) and School’s Report Card – sourced from Piper Jaffrey and PNC**

**ACADEMIC ACHIEVEMENT INDICATORS**

**Standardized Test Scores**

“Sample State” Revised Statutes §15-241 (the “School Accountability Statute”) prescribes that school performance will be evaluated and publicly reported in an annual achievement profile by the ADE based upon certain data sets including, for schools offering grades kindergarten through eight, the “Sample State” Measure of Academic Progress (“MAP”), the “Sample State” Instrument to Measure Standards (“AIMS”) test and the English language learners test and, for schools offering grades nine through twelve, the AIMS test, dropout rates, graduation rates and the English language learners test.

The AIMS assessment is the State’s primary test of student achievement, and covers Math, Reading, Writing and Science. For the 2011-2012 school year, each of the Borrower’s Schools outperformed its local public school district, Pinal County schools and the State as a whole in the percentage of students that achieve passing the AIMS assessments, as shown in the following charts.

AIMS Overall Passing Percentage  
“Sample School”

	<b>“Sample School”</b>	<b>School District</b>	<b>County</b>	<b>“Sample State”</b>
2011-2012	89%	78%	72%	77%
2010-2011	89%	77%	74%	77%
2011-2012	80%	59%	57%	63%
2010-2011	75%	59%	57%	62%
2011-2012	70%	50%	46%	55%
2010-2011	70%	50%	49%	55%
2011-2012	84%	51%	59%	66%
2010-2011	80%	51%	58%	62%

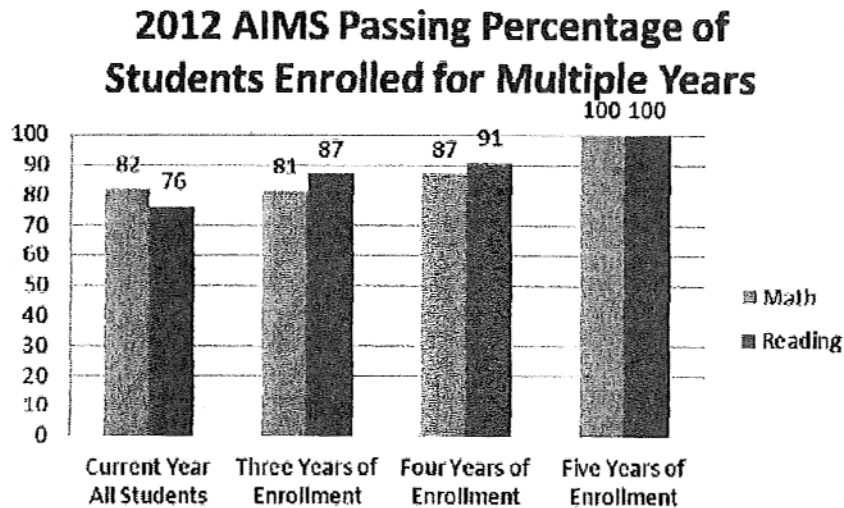
AIMS Passing Percentage-By Grade- 2011-2012  
 "Sample School"

	<b>"Sample School"</b>	<b>School District</b>	<b>County</b>	<b>"Sample State"</b>
3rd Grade	89%	78%	73%	75%
4th Grade	85%	71%	69%	75%
5th Grade	92%	79%	73%	78%
6th Grade	93%	82%	75%	80%
7th Grade	91%	81%	80%	84%
8th Grade	82%	75%	60%	72%
3rd Grade	81%	70%	68%	69%
4th Grade	75%	57%	61%	67%
5th Grade	80%	57%	57%	63%
6th Grade	84%	60%	53%	61%
7th Grade	81%	54%	55%	62%
8th Grade	79%	54%	50%	57%
5th Grade	71%	56%	49%	56%
6th Grade	82%	52%	46%	56%
7th Grade	56%	41%	42%	52%
4th Grade	77%	61%	58%	63%
8th Grade	90%	41%	60%	68%

AIMS Overall Passing Percentage  
 "Sample School"

<b>Reading</b>	<b>"Sample School"</b>	<b>Elementary District</b>	<b>County</b>	<b>"Sample State"</b>
2011-2012	87%	74%	72%	77%
2010-2011	88%	75%	74%	77%
<b>Math</b>	<b>"Sample School"</b>	<b>Elementary District</b>	<b>County</b>	<b>"Sample State"</b>
2011-2012	80%	63%	57%	63%
2010-2011	70%	62%	57%	62%
<b>Writing</b>	<b>"Sample School"</b>	<b>Elementary District</b>	<b>County</b>	<b>"Sample State"</b>
2011-2012	70%	42%	46%	55%
2010-2011	73%	43%	49%	55%

Students enrolled at the Maricopa School for three years had an 87% pass rate in Reading and an 81% pass rate in Math. Students who had remained continuously enrolled at the Maricopa School for four years had a 91% pass rate in Reading and an 87% pass rate in Math. Finally, students who were continuously enrolled at the Maricopa School for five years obtained a 100% pass rate in Reading and a 100% pass rate in Math. This data includes students with limited language proficiencies and learning disabilities.



#### School Accountability

Under the School Accountability Statute, each school is classified using a letter grade system. Each letter grade correlates to a specific performance level, as follows: a letter grade of “A” indicates “excellent” performance; “B” indicates “above-average” performance; “C” indicates an “average” performance; “D” indicates “below-average” performance; and “F” indicates a “failing” level of performance. The School Accountability Statute requires schools with a letter grade of “D” or “F” to take certain remedial measures. These school classifications are made available to the public.

For the 2011-2012 and 2010-2011 academic years, each of the Borrower’s Schools were classified as “A” schools, demonstrating excellent levels of performance. In 2011, each “Sample School” outperformed more than 91% of Pinal County schools on the “Sample State” Instrument to Measure Standards (AIMS) assessment in Math, Reading, Writing and Science. See also “COMPETITION” in this APPENDIX A, for a comparison of the letter grades of competing schools.

Supplement to APPENDIX A

Northeast Philadelphia Public Schools Profile – 2010-2011

<b>School Name</b>	<b>Grades Served</b>	<b>AYP Status*</b>	<b>% Prof./ Adv. Reading</b>	<b>% Prof./ Adv. Math</b>	<b>Distance from NFCS</b>
New Foundations Charter School	K-10	Made AYP	79.7	90.3	0.0
J. Brown Academics Plus School	K-6	Made AYP	64.4	75.5	0.8
Bridesburg School	K-5	Made AYP	70.0	57.9	0.9
Edwin Forrest School	K-6	Made AYP	82.9	87.8	0.9
Hamilton Disston School	K-8	Corrective Action I	60.4	64.2	1.5
Planet Abacus Charter School	K-6	Made AYP	91.9	97.8	1.7
Robert B. Pollock School	K-6	Made AYP	82.4	91.1	1.9
Austin Meehan Middle School	7-8	Making Progress in Corrective Action II	65.4	64.7	1.9
Thomas Holme School	K-6	Making Progress in Corrective Action II 3 <sup>rd</sup> Year	63.2	73.0	1.9
Mayfair School	K-8	School Improvement II	66.8	76.5	2.0
Henry W. Lawton School	K-6	Made AYP	57.2	64.7	2.3
Ethan Allen School	K-8	Corrective Action II 5 <sup>th</sup> Year	50.9	86.0	2.6
James J. Sullivan School	K-5	Corrective Action II 6 <sup>th</sup> Year	47.2	68.4	2.9
Rhawnhurst School	K-5	Made AYP	65.8	79.0	2.9
Solis-Cohen Academics Plus School	K-6	Made AYP	62.0	76.5	3.0
Harding Middle School	6-8	Corrective Action II 9 <sup>th</sup> Year	37.7	37.5	3.1
Woodrow Wilson Middle School	6-8	Corrective Action II 1 <sup>st</sup> Year	60.2	62.9	3.1
Louis H. Farrell School	K-8	Making Progress in School Improvement I	68.8	72.5	3.3
Tacony Academy Charter School	K-12	School Improvement I	44.8	55.0	3.3
Franklin Towne Charter Elementary School	K-8	Made AYP	67.1	80.5	3.4
Franklin Towne Charter High School	9-12	Made AYP	75.3	70.9	3.4
Maritime Academy Charter School	4-12	Warning	68.3	66.2	3.4

<b>School Name</b>	<b>Grades Served</b>	<b>AYP Status</b>	<b>% Prof. /Adv. Reading</b>	<b>% Prof./Adv. Math</b>	<b>Distance from New Foundations</b>
Gilbett Spruance School	K-8	Made AYP	58.2	69.9	3.5
John Hancock School	K-5	Made AYP	75.3	88.6	3.6
J. Hampton Moore School	K-5	School Improvement II Corrective Action II	63.0	71.0	3.7
William H. Ziegler School	K-8	1 <sup>st</sup> Year Corrective Action II	53.2	64.7	3.8
Allen M. Stearne School	K-6	5 <sup>th</sup> Year Corrective Action II	34.5	44.2	4.0
Henry Edmunds School	K-8	5 <sup>th</sup> Year	34.7	38.0	4.0
Crossan Academics Plus School	K-5	Made AYP	75.9	91.5	4.0
First Philadelphia Charter School for Literacy	K-8	Made AYP	69.5	82.3	4.0
Sankofa Freedom Academy Charter School	K-12	School Improvement I	39.3	46.2	4.0
Carnell School	K-8	Corrective Action II 3 <sup>rd</sup> Year	42.5	50.4	4.1
John Marshall School	K-5	Made AYP	52.9	58.8	4.2
Fox Chase Academics Plus School	K-5	Made AYP	71.2	85.7	4.3
A.L. Fitzpatrick School	K-8	Warning	69.9	81.2	4.7
Ann Frank School	K-5	Made AYP	76.2	87.6	4.7
Gen Harry Labrum Middle School	6-8	Made AYP	79.8	88.9	4.8
Francis Hopkinson School	K-8	Corrective Action II 8 <sup>th</sup> Year	42.5	55.6	4.9
Commonwealth Academy of Philadelphia Charter School	PreK-12	Corrective Action II 5 <sup>th</sup> Year	34.7	21.1	4.9



Northeast Philadelphia Public School Profiles- 2009-2010

School Name	Grades Served	AYP Status	% Prof./Adv. Reading	% Prof./Adv. Math	Distance from NFCS
New Foundations Charter School	K-10	Made AYP	78.1	91.8	0
J. Brown Academics Plus School	K-6	Making Progress in Corrective Action II	64.1	74.6	0.8
Bridesburg School	K-5	Made AYP	73.0	89.7	0.9
Edwin Forrest School	K-6	Making Progress in Corrective Action I	81.0	86.2	0.9
Hamilton Disston School	K-8	Making Progress in School Improvement II	60.0	67.9	1.5
Planet Abacus Charter School	K-6	Made AYP	96.0	100.0	1.7
Robert B. Pollock Austin Meehan Middle School	K-6 7-8	Made AYP Corrective Action II 3 <sup>rd</sup> Year	75.2 52.9	84.1 54.3	1.9 1.9
Thomas Holme School	K-6	Making Progress in Corrective Action II	60.0	80.0	1.9
Mayfair School	K-8	Making Progress in School Improvement II	63.4	75.7	2.0
Henry W. Lawton School	K-6	Making Progress in	53.4	71.0	2.3
Ethan Allen School	K-8	Corrective Action II 4 <sup>th</sup> Year	49.5	59.5	2.6
James J. Sullivan School	K-5	Making Progress in Corrective Action II	46.5	63.3	2.9
Rhawnhurst School	K-5	Made AYP	52.1	70.1	2.9
Solis-Cohen Academics Plus School	K-6	Making Progress in Corrective Action II	62.4	73.8	3.0
Harding Middle School	6-8	Corrective Action II 8 <sup>th</sup> Year	35.3	28.5	3.1
Woodrow Wilson School	6-8	Making Progress in	66.6	69.0	3.1
Louis H. Farrell School	K-8	School Improvement I	64.3	75.2	3.3
Tacony Academy	K-12	Warning	48.6	56.0	3.3
Franklin Towne Charter	K-8	Made AYP	53.1	59.8	3.4
Franklin Towne Charter High School	9-12	Made AYP	76.1	65.2	3.4
Maritime Academy Charter School	4-12	Made AYP	62.9	61.3	3.4
Gilbert Spruance School	K-8	Making Progress in Corrective Action II	51.8	62.7	3.5
John Hancock School	K-5	Made AYP	71.3	91.3	3.6
J. Hampton Moore School	K-5	Making Progress in School Improvement I	58.4	74.2	3.7

School Name	Grades served	AYP Status	% Prof./Adv. Reading	% Prof./Adv. Math	Distance from New Foundations
William H. Ziegler School	K-8	Corrective Action I	45.2	58.6	3.8
Allen M. Stearne School	K-6	Making Progress in Corrective Action II	30.0	47.7	4.0
Henry Edmunds School	K-8	Corrective Action II 4 <sup>th</sup> Year	34.8	35.2	4.0
Crossan Academics Plus School	K-5	Made AYP	67.5	92.2	4.0
First Philadelphia Charter School for Literacy	K-8	Made AYP	69.2	70.8	4.0
Sankofa Freedom Academy Charter School	K-12	Warning	39.8	38.7	4.0
Carnell School	K-8	Corrective Action II 2 <sup>nd</sup> Year	44.1	51.1	4.1
John Marshall School	K-5	Made AYP	52.0	68.5	4.2
Fox Chase Academics Plus School	K-5	Made AYP	70.3	81.1	4.3
A.L. Fitzpatrick School	K-8	Made AYP	76.9	82.3	4.7
Ann Frank School	K-5	Made AYP	79.4	87.8	4.7
Gen Harry Labrum Middle School	6-8	Making Progress in School Improvement I	67.6	75.7	4.8
Francis Hopkinson School	K-8	Corrective Action II 7 <sup>th</sup> Year	46.3	58.4	4.9
Commonwealth Academy of Philadelphia Charter School	Pre-K-12	Corrective Action II 4 <sup>th</sup> Year	33.2	19.6	4.9

The API scores and enrollment of certain other elementary schools located within the District are set forth in the table below.

LOCAL SCHOOL COMPARISON

School	District	2011-12 Enrollment	2010-11 API	2011-12 API
Coastal Academy	Oceanside USD	802	855	857
Christa McAuliffe Elementary	Oceanside USD	766	854	841
Del Rio Elementary	Oceanside USD	512	749	743
E. G. Garrison Elementary	Oceanside USD	453	790	782
Ivey Ranch Elementary	Oceanside USD	783	903	902
Laurel Elementary	Oceanside USD	520	692	720
Libby Elementary	Oceanside USD	490	729	748
Louise Foussat Elementary	Oceanside USD	791	824	830
Mission Elementary	Oceanside USD	588	719	720
Nichols Elementary	Oceanside USD	786	781	800
North Terrace Elementary	Oceanside USD	568	855	811
Palmquist Elementary	Oceanside USD	617	872	872
Reynolds Elementary	Oceanside USD	619	742	771
San Luis Rey Elementary	Oceanside USD	452	743	740
Santa Margarita Elementary	Oceanside USD	756	827	798
South Oceanside Elementary	Oceanside USD	725	797	824
Stuart Mesa Elementary	Oceanside USD	523	847	841

Source: "Sample State" Department of Education.

## HISTORICAL TEST SCORES

Both public and charter schools within “Sample State” are ranked based on annual API scores. The API is a single number, ranging from a low of 200 to a high of 1000 that reflects a school’s performance level, based on the results of statewide testing. The API’s purpose is to measure the academic performance and growth of schools. The API was established by the Public Schools Accountability Act, “Sample State” Education Code §52050 et seq., a State law passed in 1999 that created a new academic accountability system for K-12 public education in the State.

The API is calculated by converting a student’s performance on statewide assessments across multiple content areas into points on the API scale. These points are then averaged across all students and all tests.

Key features of the API include the following:

- The API is based on an improvement model and is used to measure the academic growth of a school.
- The API from one year is compared to the API from the prior year to measure improvement. Each school has an annual target, and all numerically significant subgroups at a school also have targets.
- The API requires subgroup accountability to address the achievement gaps that exist between traditionally higher- and lower-scoring student subgroups.
- The API is a cross-sectional look at student achievement. It does not track individual student progress across years but rather compares snapshots of school achievement results from one year to the next.
- The API is used to rank schools. A school is compared to other schools Statewide and to 100 other schools that have similar demographic characteristics.

The API score for the Borrower, as well as average API schools in the District and the State for the school year last five years, are as follows:

Academic Performance Index Scores  
“Sample Charter School” Charter School, the District, and the State

School Year	The Borrower	The District	State of California
2007-08	855	706	728
2008-09	874	732	741
2009-10	860	740	754
2010-11	858	750	779
2011-12	855	746	778

Source: “Sample State” Department of Education.

*Standardized Testing.* In 2012, the charts below shows how many students tested in 2012, and were considered to be proficient or advanced in English Language Arts, Math, & Science.

CST English-Language Arts- By Grade

<b>Result Type</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
Students Tested	78	83	82	68	83	83	60
% of Enrollment	97.50%	94.30%	89.10%	88.30%	92.20%	92.20%	96.80%
Students with Scores	77	83	82	67	83	83	60
Mean Scale Score	372.6	361.4	400.9	382	383.4	392	389.9
% Advanced	34%	23%	59%	39%	41%	36%	42%
% Proficient	35%	40%	22%	34%	33%	47%	43%
% Total Adv/Prof	69%	63%	81%	73%	74%	83%	85%

*Source: "Sample State" Department of Education.*

On average, the above results indicate that approximately 75% of the Borrower's students tested were considered proficient or advanced in English Language Arts, while only 56% of comparable students within the District achieved the same levels.

CST Mathematics - By Grade

<b>Result Type</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
Students Tested	78	83	83	68	84	74	28
% of Enrollment	97.50%	94.30%	90.20%	88.30%	93.30%	82.20%	45.20%
Students with Scores	75	83	83	67	84	74	28
Mean Scale Score	412.2	400	407.3	396.3	378.2	355	372
% Advanced	48%	43%	51%	31%	30%	11%	29%
% Proficient	31%	31%	23%	34%	33%	43%	32%
% Total Adv/Prof	79%	74%	74%	65%	63%	54%	61%

*Source: "Sample State" Department of Education.*

On average, the above results indicate that approximately 67% of the Borrower's students tested were considered proficient or advanced in Mathematics, while only 60% of comparable students within the District achieved the same levels.

CST Science- Grade 5 & 8

<b>Result Type</b>	<b>5</b>	<b>8</b>
Students Tested	68	60
% of Enrollment	88.30%	96.80%
Students with Scores	67	59
Mean Scale Score	384.9	379.7
% Advanced	33%	34%
% Proficient	42%	34%
% Total Adv/Prof	75%	68%

*Source: "Sample State" Department of Education.*

On average, the above results indicate that approximately 72% of the Borrower's students tested were considered proficient or advanced in Science, while only 56% of comparable students within the District achieved the same levels.

**Include Educational Awards and Distinctions – sourced from Baird**

**Recent Accomplishments**

“Sample Charter School” points to the following as highlights from the recent past:

- In the 2011-12 school year, 100% of “Sample Charter School’s” 209 seniors were accepted into college and earned collectively over \$43 million in scholarships and over 1,100 acceptance letters.

All five “Sample Charter School” high schools were ranked in the Washington Post’s top public high schools list. Two “Sample Charter School” high schools were on the Newsweek Top 100 List and three were on Newsweek’s Top 25 “Transformative High Schools” list.

- North Hills Preparatory and Peak Preparatory both received 5-Star FAST ratings from the State’s Controller based on its outstanding financial management and academic performance.

North Hills Preparatory has received all 14 possible “Gold Performance Acknowledgments” from the Texas Educational Agency in its 14 years of operation. 97% percent of North Hills Preparatory International Baccalaureate (“IB”) Diploma candidates receive an IB diploma (compared to 70% nationwide).

- Peak Preparatory recently received a National Excellence in Urban Education Award, which honors schools that serve low-income communities. Only three high schools in the nation were honored with this award.
- The University of Texas Southwestern Medical Center recently expanded its “Sample Charter School” partnership by hosting “Sample Charter School’s” system-wide science fair. Deans and professors judged projects from 100 students selected from almost 6,000 student submissions.
- Four of five of “Sample Charter School’s” districts were rated Exemplary by the Texas Education Agency. Heights Preparatory, under the Williams Preparatory charter, opened Exemplary in its first year of operations. No school in the West Dallas community where Heights Preparatory is located had received higher than an “Academically Acceptable” rating in the past five years.
- In 2011, “Sample Charter School” joined the portfolio of the Charter School Growth Fund and received a \$5 million investment to support its future growth plans to double the number of students served. Also in 2011, “Sample Charter School” was awarded two Public Charter School Start-Up Grants of \$500,000 each for new “Sample Charter School” schools to be opened in 2011-12.
- Overall, in terms of TAKS performance (State standardized test), “Sample Charter School” outperformed the State’s average Commended score (State’s indicator of college readiness) by 10 or more points on 80% of exams.
- “Sample Charter School” Education is one of 61 finalists (out of nearly applications) for the Department of Education Race to the Top District grant.

*Disclosure Best Practice Example*

**Include an Evaluative Report by the Authorizer Assessing the School's Academic Performance – sourced from Jeffries**

- See APPENDIX E



## **OTHER OBLIGATIONS**

The Borrower, together with Classical Academy and Classical Academy High School, has a joint revolving line of credit for working capital, in the aggregate amount of \$1,200,000 (the "Working Capital Line of Credit") for which each of the three charter schools is jointly and severally liable. The Working Capital Line of Credit is chiefly used to offset the State of "Sample State's" ongoing practice of delaying the payment of funds to K-12 schools in the State. The full balance of this line of credit is required to be paid back in full within each 12 month cycle. As of the date hereof, the total outstanding amount drawn on the Working Capital Line of Credit is \$570,000, of which \$200,000 is attributable to draws by the Borrower.

The Working Capital Line of Credit is secured by pledges of the gross revenues of each of the Classical Academies and constitutes parity Indebtedness with respect to the Borrower. The total amount outstanding is expected to be repaid on or before February 1, 2013.

## **BUDGETING AND ACCOUNTING**

A Board-appointed finance and budget committee (the "Finance and Budget Committee") is responsible for overseeing the financial welfare of the school as well as overseeing all financial reporting requirements to outside organizations. The Finance and Budget Committee oversees the creation of the annual budget, accounts for spending, control contract bids, and works with the principal to achieve long-term financial goals and success. This committee also ensures adequate internal controls over spending, oversees the fund balance, and communicates financial data to stakeholders.

Each year in June, a budget is prepared by administration for the following fiscal year, with input and oversight by the Finance and Budget Committee, with underlying assumptions and estimates clearly documented. The budget is subject at all times to review by the District. The budget is based on state and federal educational funding, as well as anticipated cash donations.

The Borrower maintains several funds, each of which is considered a separate accounting entity. A separate budget is prepared for each fund on the same basis of accounting as the year-end audited financial statements. Budgeted expenditure appropriations lapse at fiscal year-end. Mid-year, after enrollment numbers are stabilized and government funding levels are known.

**Include Discussion of Budgeting and Accounting Principles – sourced from Piper Jaffrey**

**Principles**

Charter Schools in “Sample State” are required by the “Sample State” Department of Education to annually prepare a proposed budget and submit a copy to the Superintendent of Public Instruction no later than July 5. Such annual budget is prepared in accordance with the “Sample State” Charter School Administrators guidelines and instructions.

The Schools follow the “Sample State” Department of Education guidelines with respect to budgeting, accounting and auditing public schools. The Manager, with the board approval of the respective “Sample School”, administers the financial affairs of the “Sample School” Schools and is responsible for implementing proper accounting controls.

With respect to budgeting, the Manager works with the Principal and the Boards of each “Sample School” to prepare a budget which is presented to the State in June and adopted in July. Prospectively, the budget is prepared based on forecasted ADM for the Schools for State revenues and forecasted Federal Grants and Local Revenues. The expenses are grouped in five separate expense budgets consisting of the Principal, Maintenance, Special Education, Marketing and Food. These budgets are created based on a forecast cost per ADM for each functional expense area and constantly applied to each of the schools. These expense budgets are reviewed with the Manager’s directors responsible for that budget along with the respective school manager for that area and the Principal. In addition, all other non-functional expenses including the management fee, rents, depreciation are then included to create the full annual budget.

This annual budget is then reviewed and approved by the respective “Sample School” board and Principal. On a quarterly basis, the actual financial activity and updated forecast for the year is reviewed with the respective boards, Principal and the Manager. As required by the “Sample State” Board for Charter Schools, an annual audit is performed for each year. The Borrower has approved the engagement of Mayer Hoffman McCann P.C., as its auditors, and the Borrower’s Audited Financial Statements are included in APPENDIX C of this “Official Statement”.

**Include Discussion Financial Policies and Internal Controls – sourced from TD Securities and PNC**

**Internal Controls**

The Borrower’s bylaws provide that the Board may authorize any officer or officers, agents or agents of the Borrower, in addition to the officers authorized by the Bylaws to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Borrower, and such authority may be general or confined to specific instances. Additionally, the Borrower’s bylaws state that all checks, drafts, or order for the payment of money, notes, or other evidences of indebtedness issued in the name of the Borrower must be signed by such officer or officers, agent or agents, of the Borrower in the manner as is from time to time be determined by resolution of the Borrower’s Board. All checks require two signatures by authorized signers.

Payroll

*Policy:* The Charter School shall maintain a payroll system approved by the Board of Trustees.

*Procedure:* Documentation of authorized pay rates shall be maintained in the employee’s personnel file. “Sample Charter School” will contract with a payroll service to provide payroll processing. The CEO will receive the payroll reports and document approval. All payroll changes will be authorized by the CEO. The fiscal department will record each payroll to the accounting system, including any payroll accruals, in accordance with GAAP.

Purchases

*Policy:* The Charter School will make all purchasing decisions based on: (a) price; (b) quality; and (c) dependability. The Board grants the CEO the authorization to purchase materials and enter into contracts that follow the allocations specified in the Board-approved budget, up to \$20,000. Single purchases or combined purchases to one vendor within one month that exceed that amount need Board approval.

*Procedure:* A purchase request is to be prepared for all purchases of \$500 or more. For capital purchases, including the Project, the Board of Trustees provides a written Resolution for approval of expenditures for such projects. Three written bids must be obtained for procurement of furnishings and equipment. Whenever the vendor selected is other than the lowest bidder, reasons for the selection will be documented via internal memorandum and attached to the purchase documentation. The receipt of goods by mail shipment or other carrier must be signed for and received by someone who is independent of both the ordering and payment process. “Sample Charter School” will present a request for exemption from sales tax on all qualifying purchases. Additional procurement requirements for specific contracts are followed and procedures are modified as needed.

Accounting System

*Policy:* “Sample Charter School” shall use the accrual basis accounting in accordance with GAAP. All financial statements and any reporting to the IRS or other governmental entities shall be completed using this method.

Audits

*Policy:* Independent audits of the financial statements shall be conducted annually by a “Sample State” State Certified Public Accountant selected by the Board of Trustees. Annual audits will be conducted in accordance with generally accepted auditing standards (“GAAP”).

*Procedure:* Appropriate financial forms and reports shall be filed with the charter entity, federal government and appropriate state agencies. Upon completion, audits shall be reviewed and submitted to the Board of Trustees for review and approval.

### Accounts Receivable

*Policy:* “Sample Charter School” will maintain accounts receivable in accordance with GAAP for scheduled receipts from the school districts, grants or any other amounts due but not yet received.

*Procedure:* All revenues will be recorded on an accrual basis in accordance with GAAP. Management will maintain an aged schedule of amounts receivable, which list payer, date, description, and account. The Fiscal Manager will reconcile such schedule to the general ledger on a monthly basis.

### Accounts Payable

*Policy:* The Charter School, whenever practical, shall pay invoices within 60 days of their issue, unless alternative arrangements are made with vendors or unless a dispute arises. Invoices of an amount which precludes payment within 60 days may be put on a payment plan, allowing a monthly payment agreeable to both the Charter School and the vendor, unless another arrangement is reached agreeable to both the Charter School and the vendor.

*Procedure:* All accounts payable shall be recorded on an accrual basis in accordance with GAAP. Accounts payable shall be maintained by the Fiscal Manager, who shall maintain an aging of accounts payable schedule listing the payee, transaction date, amount and payable description and account. Payments of invoices shall be processed on or about the end of each week. All purchases in excess of \$5,000 shall be approved by the CEO. All invoices will be approved by the CEO prior to payment. No payment will be made without a properly approved invoice or other supporting documentation. All contracts and loans shall be approved by the Board of Trustees.

### Investing

*Policy:* The Charter School’s funds shall be invested in a money market fund and/or certificates of deposits.

*Procedure:* The CEO shall identify excess funds available for investment, and seek approval of the Board of Trustees prior to the transfer of such funds.

### **Conflicts of Interest Policy**

The Borrower’s Conflict of Interest Policy, which was adopted on October 10, 2009 (the “Conflicts Policy”), requires that in connection with any actual or possible conflict of interest, an interested person (which term includes any director, principal officer, or member of a committee with governing board delegated powers, who has a direct or indirect financial interest) must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement. After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he/she must leave the Board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining Board or committee members shall decide if a conflict of interest exists. The Conflicts Policy sets forth the procedures to address a conflict of interest if one is determined to exist. The Conflicts Policy also provides that if the Borrower’s Board or committee has reasonable cause to believe a member has failed to disclose actual or possible conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose. The Conflicts Policy states that if, after hearing the member’s response and after making further investigation as warranted by the circumstances, the Borrower’s Board or committee determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action. Each director, principal officer and member of a committee with governing board delegated powers must annually sign a statement which affirms that such person has received a copy of the Conflicts Policy, has read and understands the Conflicts Policy, has agreed to comply with the Conflicts Policy, and understands that the Borrower is charitable and in order to maintain its federal tax exemption, it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

The Code and related Treasury Regulations contain provisions governing “excess benefit” transactions (as set forth in Section 4958 of the Code). Those provisions provide for penalty taxes and, in extreme cases, revocation of 501(c) (3) status, for, among other things, above fair market value transactions with “disqualified persons.” Loss of tax-exempt status by the Borrower could result in loss of tax exemption for federal income tax purposes of interest on the Series 2010 Bonds. See “RISK FACTORS- Loss of Tax-Exempt Status.”

The Budget and Finance Committee reviews the underlying assumptions and modifies the operating budget to reflect known changes. This modified budget is presented to the Board and adopted in September or October of each year.

As permitted by the Charter School Law, the Borrower operates as a nonprofit public benefit corporation under the “Sample State” Nonprofit Public Benefit Corporation Law. State law requires the Borrower to comply with Uniform Financial Accounting and Reporting Standards for “Sample State” School Districts, which mandates the use of a governmental fund accounting structure and mandatory reporting requirements. Separate fund financial statements are prepared for governmental and fiduciary funds. The existence of the various school funds has been established by the “Sample State” Department of Education.

Under the Charter School Law, the Borrower is required to conduct an annual financial audit. The Borrower has engaged “Sample Auditor” as its auditor for its audited financial statements for Fiscal Year ended June 30, 2012. Such financial statements are included in “APPENDIX C - AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR THE FISCAL YEAR ENDED JUNE 30, 2012.”

## **INSURANCE**

The Borrower maintains certain insurance coverage through various underwriters through the San Diego County Public Schools Joint Powers Authority.

## **LITIGATION**

Currently, there is no litigation pending or threatened against the Borrower that, if determined adversely to it, would have a material adverse effect on the financial position or operations of the Borrower.

## **FINANCIAL INFORMATION**

Selected historic and projected financial information with respect to the Borrower is set forth on the following pages. For additional financial information for Fiscal Year 2011-12, see "APPENDIX C - AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR THE FISCAL YEAR ENDED JUNE 30, 2012."

### **State Aid Payments and ADA**

The amount of State apportionment funding for Fiscal Year 2012-13 budgeted by the Borrower assumed that Proposition 30 would not be approved by the voters at the November 6, 2012 election. In spite of the approval of Proposition 30, given the expected significant delay by the State in disbursing any additional funds, the Borrower did not and does not intend to adjust its budget for Fiscal Year 2012-13. The Borrower cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. For general discussion on allocation of State funding, see "STATE FUNDING OF EDUCATION- Allocation of State Funding to Charter Schools."

For non-classroom-based independent study programs, such as the Borrower's, the determination of corresponding ADA depends upon the documentation showing that the students performed what is, in the discretion of the charter school and the assigned certificated teacher, the minimum amount of work necessary to constitute a day's worth of work done by a student. The minimum amount of work performed by a student in a day must be done on the day for which it is claimed as attendance for ADA. Any extra amount of work performed by the student on that given day generates no further ADA credit.

Non-classroom-based independent study programs demonstrate non-classroom-based ADA by articulating which days are considered to be school days and providing contemporaneous records for each student clearly showing the school days within that school calendar that the student is engaged in the required education activities to an extent sufficient to constitute at least one day of time value, as determined in the discretion of the charter school and evaluated by the assigned certificated teacher. Charter schools are required to have at least 175 school days in a fiscal year, unless the school has a State Board of Education approved waiver. Additionally, charter schools are required by statute to provide certain levels of instructional minutes for each grade level, which requirements are taken into consideration when defining the value of educational activities sufficient to constitute at least one day of time value.

As described above, the Borrower's two distinct educational models combine elements of classroom-based and non-classroom-based instruction; but for purposes of ADA calculations (due to the regulatory definition of non-classroom-based ADA), both models are considered to be non-classroom-based programs. Thus, Track C students are allocated ADA on the same basis as students in Track A and Track B, and receive the same per-pupil revenue, even though the levels of participation of Track C students at the school site vary considerably from those of Track A and Track B students.

This practice is possible because, as mentioned above, the assigned certificated teacher and the charter school have discretion to determine what documentation is required to show the minimum amount of work necessary to constitute a day's worth of work done by a student in a non-classroom-based independent study

program. Accordingly, although the documentation required to show the students performed the amount of work necessary to constitute a day's worth of work for Track A and Track B is different than for Track C students, the end result is the same.

Non-classroom-based independent study programs are required to request a funding determination from the State Board of Education before it will receive its apportionments based on ADA. Schools are not required to reapply annually for a funding determination when the information submitted has not materially changed. Furthermore, schools with a 6 or better on the API for two (2) years prior to a request for a funding determination are entitled to a funding determination of five (5) years, unless there is a material revision to the information requested.

Through the funding determination process, the State Board of Education, through recommendations of the Advisory Committee on Charter Schools ("ACCS"), approves the charter school's request for a specific percentage of funding based upon the charter school's ADA using specific criteria outlined in Title 5 of the "Sample State" Code of Regulations.

A charter school may be granted 100% of its ADA funding in its funding determination request if (1) the total expenditures for salaries and benefits of all of its employees who possess a valid teaching credential, permit, certificate, etc., are forty percent (40%) or greater of the school's total public revenues (as defined in regulation); (2) the school's total expenditures on instruction and related services equals eighty percent (80%) or more of the school's total public revenues (as defined in regulation); and (3) the school's teacher to student ratio does not exceed 25 students to 1 full time certificated teacher. If, however, other factors provide a reasonable basis for the ACCS to recommend otherwise, the amount of the apportionment may be reduced.

A charter school may be granted 85% of its ADA funding in its funding determination request if (1) the total expenditures for salaries and benefits of all of its employees who possess a valid teaching credential, permit, certificate, etc., are forty percent (40%) or greater of the school's total public revenues (as defined in regulation); (2) the school's total expenditures on instruction and related services equals seventy percent (70%) but less than eighty percent (80%) of the school's total public revenues (as defined in regulation). If, however, other factors provide a reasonable basis for the ACCS to recommend otherwise, the amount of the apportionment may be reduced or increased. Such other factors might include one-time expenditures required for capital expenditures or facilities costs.

A charter school may be granted 70% of its ADA funding in its funding determination request if (1) the total expenditures for salaries and benefits of all of its employees who possess a valid teaching credential, permit, certificate, etc., are between thirty-five percent (35%) and thirty-nine point nine percent (39.9%) of the school's total public revenues (as defined in regulation); (2) the school's total expenditures on instruction and related services equals at least sixty percent (60%) but less than seventy percent (70%) of the school's total public revenues (as defined in regulation). If, however, other factors provide a reasonable basis for the ACCS to recommend otherwise, the amount of the apportionment may be reduced or increased. Such other factors might include one-time expenditures required for capital expenditures or facilities costs.

A charter school may be denied apportionment funding for ADA if (1) the total expenditures for salaries and benefits of all of its employees who possess a valid teaching credential, permit, certificate, etc., is less than thirty-five percent (35%) of the school's total public revenues (as defined in regulation); or (2) the school's total expenditures on instruction and related services is less than sixty percent (60%) of the school's total public revenues (as defined in regulation). If, however, other factors provide a reasonable basis for the ACCS to recommend otherwise, it may recommend that the State Board of Education to approve the funding determination request. Denial of a determination of funding request by the State Board of Education shall result in no funding being apportioned for average daily attendance identified by the charter school as being generated through non-classroom-based instruction.

The Borrower's historical ADA from 2007-08 to the present is reflected in the table shown below. The Borrower submitted its most recent funding determination request for 100% in the year 2011. It was granted and the funding determination expires in 2016. While the State Board of Education maintains authority to request a new funding determination request at charter renewal and within its discretion at any time, the Borrower has not been

provided any notice that it will be required to submit such a funding determination renewal request. Prior to the 2011 funding determination request, the Borrower submitted a funding determination request for 100% in the year 2006, at which time it was granted for a period of 5 years.

Current and historical ADA information for the Borrower is set forth in the table below.

Current and Historical ADA  
"Sample Charter School"

<b>Grade*</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13**</b>
K-3	258.65	266.84	287.63	336.20	393.24	419.90
4-6	185.16	203.77	213.73	236.41	264.95	282.15
7-8	<u>104.06</u>	<u>117.21</u>	<u>115.75</u>	<u>129.13</u>	<u>149.31</u>	<u>178.60</u>
<b>Total</b>	<b>547.87</b>	<b>587.82</b>	<b>617.11</b>	<b>701.74</b>	<b>807.50</b>	<b>880.65</b>

\* Ranges of grade levels corresponding to funding levels of general purpose entitlement. See "State Funding of Education- Allocation of State Funding to Charter Schools" in the "Official Statement" to which this appendix is attached.

\*\* Estimated