

**APPENDICES B-K TO SAMPLE BOND DISCLOSURE**

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*Disclosure Best Practice Example*

**Include Detailed Historical and Projected Revenue and Expenses – sourced from Janney**

- See APPENDIX B
- 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.

**APPENDIX B**

**HISTORIC AND PROJECTED REVENUE AND EXPENSES**

## BUDGET PROJECTIONS

### Legacy Traditional Schools - Queen Creek & Casa Grande Campuses

Students:							
Queen Creek	680	789	830	1,005	1,005	1,005	1,005
Casa Grande	509	679	898	1,125	1,125	1,125	1,125
<b>Total</b>	<b>1,189</b>	<b>1,468</b>	<b>1,728</b>	<b>2,130</b>	<b>2,130</b>	<b>2,130</b>	<b>2,130</b>
	Audited				Proforma		
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Revenues</b>							
State Funding	6,737,013	8,325,382	10,371,456	12,976,024	13,170,664	13,368,224	13,568,748
Federal Funding	402,833	493,489	577,152	722,091	732,923	743,917	755,075
Local Funding	199,404	378,046	400,896	501,572	509,096	516,732	524,483
<b>Total Revenues</b>	<b>7,339,250</b>	<b>9,196,917</b>	<b>11,349,504</b>	<b>14,199,688</b>	<b>14,412,683</b>	<b>14,628,873</b>	<b>14,848,306</b>
<b>Expenses</b>							
Personal Services - salaries	3,361,797	3,616,029	4,669,050	5,257,172	5,414,887	5,577,333	5,744,653
Personal Services - benefits	648,067	500,193	606,977	683,432	703,935	725,053	746,805
Purchased Professional Services	910,702	1,073,477	1,916,700	2,407,351	2,450,978	2,495,433	2,540,730
Purchased Facilities Services	229,589	349,481	274,000	340,892	344,301	347,744	351,221
Purchased Other Services	38,613	47,933	76,000	94,554	95,500	96,455	97,419
Supplies	662,709	596,494	405,604	504,743	509,790	514,888	520,037
Depreciation and Amoritzation	335,070	388,418	533,604	565,286	565,286	565,286	565,286
Interest	1,851,167	2,058,955	2,515,672	2,088,438	2,065,638	2,041,888	2,016,950
Other Expenses	48,280	29,851	34,200	42,549	42,975	43,405	43,839
Bond Cost	-	-	-	27,945	27,599	27,237	26,857
<b>Total Expenses</b>	<b>8,085,994</b>	<b>8,660,831</b>	<b>11,031,806</b>	<b>12,012,362</b>	<b>12,220,888</b>	<b>12,434,721</b>	<b>12,653,798</b>
<b>Net Operating Income</b>	<b>(746,744)</b>	<b>536,086</b>	<b>317,698</b>	<b>2,187,326</b>	<b>2,191,795</b>	<b>2,194,153</b>	<b>2,194,509</b>
<b>Add Back:</b>							
Depreciation and Amoritzation	335,070	388,418	533,604	565,286	565,286	565,286	565,286
Interest	1,851,167	2,058,955	2,515,672	2,088,438	2,065,638	2,041,888	2,016,950
<b>Net Income Available for Debt Service</b>	<b>1,439,493</b>	<b>2,983,459</b>	<b>3,366,974</b>	<b>4,841,049</b>	<b>4,822,718</b>	<b>4,801,326</b>	<b>4,776,745</b>
<b>Series 2013 Debt Service</b>							
Principal	-	-	-	480,000	500,000	525,000	550,000
Interest	-	-	2,515,672	2,088,438	2,065,638	2,041,888	2,016,950
<b>Total Debt Service</b>	<b>-</b>	<b>-</b>	<b>2,515,672</b>	<b>2,568,438</b>	<b>2,565,638</b>	<b>2,566,888</b>	<b>2,566,950</b>
<b>Debt Service Coverage Ratio</b>	<b>NA</b>	<b>NA</b>	<b>1.34</b>	<b>1.88</b>	<b>1.88</b>	<b>1.87</b>	<b>1.86</b>
<b>Remaining Cash Flow</b>	<b>NA</b>	<b>NA</b>	<b>851,302</b>	<b>2,272,612</b>	<b>2,257,080</b>	<b>2,234,438</b>	<b>2,209,795</b>
Add Back: Management Fee	NA	714,000	1,555,200	1,955,340	1,994,447	2,034,336	2,075,022
<b>Senior Net Income Available for Debt Service</b>	<b>NA</b>	<b>3,697,459</b>	<b>4,922,174</b>	<b>6,796,389</b>	<b>6,817,165</b>	<b>6,835,662</b>	<b>6,851,767</b>
<b>Senior Debt Service Coverage Ratio</b>	<b>NA</b>	<b>NA</b>	<b>1.96</b>	<b>2.65</b>	<b>2.66</b>	<b>2.66</b>	<b>2.67</b>



**Legacy Traditional Schools - Casa Grande Campus**

Students:	680	789	898	1125	1125	1125	1125
	<u>Audited</u>				<u>Proforma</u>		
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
<b>Revenues</b>							
State Funding	3,860,381	4,507,463	5,389,796	6,853,534	6,956,337	7,060,682	7,166,592
Federal Funding	188,444	246,745	299,932	381,386	387,107	392,914	398,807
Local Funding	117,633	255,379	208,336	264,915	268,889	272,922	277,016
<b>Total Revenues</b>	<b>4,166,458</b>	<b>5,009,587</b>	<b>5,898,064</b>	<b>7,499,835</b>	<b>7,612,333</b>	<b>7,726,518</b>	<b>7,842,415</b>
<b>Expenses</b>							
Personal Services - salaries	1,722,268	1,856,040	2,360,031	2,786,182	2,869,767	2,955,860	3,044,536
Personal Services - benefits	333,977	262,309	306,804	362,204	373,070	384,262	395,790
Purchased Professional Services	455,168	569,292	1,042,250	1,328,896	1,352,513	1,376,572	1,401,082
Purchased Facilities Services	133,577	186,431	137,000	173,348	175,081	176,832	178,600
Purchased Other Services	19,079	33,617	38,000	48,082	48,563	49,048	49,539
Supplies	296,474	327,240	205,589	260,134	262,736	265,363	268,017
Depreciation and Amoritazion	167,774	190,644	267,279	266,697	266,697	266,697	266,697
Interest	932,378	1,011,121	1,268,520	980,318	969,615	958,467	946,761
Other Expenses	22,882	20,034	17,100	21,637	21,853	22,072	22,292
Bond Cost	-	-	-	13,117	12,955	12,785	12,607
<b>Total Expenses</b>	<b>4,083,577</b>	<b>4,456,728</b>	<b>5,642,573</b>	<b>6,240,615</b>	<b>6,352,850</b>	<b>6,467,958</b>	<b>6,585,921</b>
<b>Net Operating Income</b>	<b>82,881</b>	<b>552,859</b>	<b>255,491</b>	<b>1,259,220</b>	<b>1,259,483</b>	<b>1,258,559</b>	<b>1,256,494</b>
<b>Add Back:</b>							
Depreciation and Amoritazion	167,774	190,644	267,279	266,697	266,697	266,697	266,697
Interest	932,378	1,011,121	1,268,520	980,318	969,615	958,467	946,761
<b>Net Income Available for Debt Service</b>	<b>1,183,033</b>	<b>1,754,624</b>	<b>1,791,290</b>	<b>2,506,235</b>	<b>2,495,795</b>	<b>2,483,723</b>	<b>2,469,952</b>
<b>Series 2013 Debt Service</b>							
Principal	-	-	-	225,313	234,701	246,436	258,171
Interest	-	-	1,268,520	980,318	969,615	958,467	946,761
<b>Total Debt Service</b>	<b>-</b>	<b>-</b>	<b>1,268,520</b>	<b>1,205,631</b>	<b>1,204,316</b>	<b>1,204,903</b>	<b>1,204,932</b>
<b>Debt Service Coverage Ratio</b>	<b>NA</b>	<b>NA</b>	<b>1.41</b>	<b>2.08</b>	<b>2.07</b>	<b>2.06</b>	<b>2.05</b>
<b>Remaining Cash Flow</b>	<b>NA</b>	<b>NA</b>	<b>522,770</b>	<b>1,300,605</b>	<b>1,291,479</b>	<b>1,278,820</b>	<b>1,265,020</b>
Add Back: Management Fee	NA	357,000	808,200	1,032,750	1,053,405	1,074,473	1,095,963
Senior Net Income Available for Debt Service	NA	2,111,624	2,599,490	3,538,985	3,549,200	3,558,197	3,565,915
<b>Senior Debt Service Coverage Ratio</b>	<b>NA</b>	<b>NA</b>	<b>2.05</b>	<b>2.94</b>	<b>2.95</b>	<b>2.95</b>	<b>2.96</b>

**Legacy Traditional Schools - Queen Creek Campus**

Students:	509	679	830	1005	1005	1005	1005
	<u>Audited</u>				<u>Proforma</u>		
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
<b>Revenues</b>							
State Funding	2,876,632	3,817,919	4,981,660	6,122,490	6,214,328	6,307,542	6,402,156
Federal Funding	214,389	246,744	277,220	340,705	345,816	351,003	356,268
Local Funding	81,771	122,667	192,560	236,657	240,207	243,810	247,468
<b>Total Revenues</b>	<b>3,172,792</b>	<b>4,187,330</b>	<b>5,451,440</b>	<b>6,699,853</b>	<b>6,800,350</b>	<b>6,902,356</b>	<b>7,005,891</b>
<b>Expenses</b>							
Personal Services - salaries	1,639,529	1,759,989	2,309,019	2,470,990	2,545,119	2,621,473	2,700,117
Personal Services - benefits	314,090	237,884	300,172	321,229	330,866	340,791	351,015
Purchased Professional Services	455,534	504,185	874,450	1,078,455	1,098,466	1,118,861	1,139,648
Purchased Facilities Services	96,012	163,050	137,000	167,544	169,220	170,912	172,621
Purchased Other Services	19,534	14,316	38,000	46,472	46,937	47,406	47,880
Supplies	366,235	269,254	200,015	244,609	247,055	249,525	252,021
Depreciation and Amorization	167,296	197,774	266,325	298,589	298,589	298,589	298,589
Interest	918,789	1,047,834	1,247,152	1,108,120	1,096,022	1,083,421	1,070,189
Other Expenses	25,398	9,817	17,100	20,912	21,122	21,333	21,546
Bond Cost	-	-	-	14,827	14,644	14,452	14,250
<b>Total Expenses</b>	<b>4,002,417</b>	<b>4,204,103</b>	<b>5,389,233</b>	<b>5,771,747</b>	<b>5,868,038</b>	<b>5,966,762</b>	<b>6,067,876</b>
<b>Net Operating Income</b>	<b>(829,625)</b>	<b>(16,773)</b>	<b>62,207</b>	<b>928,105</b>	<b>932,312</b>	<b>935,593</b>	<b>938,015</b>
<b>Add Back:</b>							
Depreciation and Amorization	167,296	197,774	266,325	298,589	298,589	298,589	298,589
Interest	918,789	1,047,834	1,247,152	1,108,120	1,096,022	1,083,421	1,070,189
<b>Net Income Available for Debt Service</b>	<b>256,460</b>	<b>1,228,835</b>	<b>1,575,684</b>	<b>2,334,814</b>	<b>2,326,923</b>	<b>2,317,602</b>	<b>2,306,792</b>
<b>Series 2013 Debt Service</b>							
Principal	-	-	-	254,687	265,299	278,564	291,829
Interest	-	-	1,247,152	1,108,120	1,096,022	1,083,421	1,070,189
<b>Total Debt Service</b>	<b>-</b>	<b>-</b>	<b>1,247,152</b>	<b>1,362,807</b>	<b>1,361,321</b>	<b>1,361,984</b>	<b>1,362,018</b>
<b>Debt Service Coverage Ratio</b>	<b>NA</b>	<b>NA</b>	<b>1.26</b>	<b>1.71</b>	<b>1.71</b>	<b>1.70</b>	<b>1.69</b>
<b>Remaining Cash Flow</b>	<b>NA</b>	<b>NA</b>	<b>328,532</b>	<b>972,007</b>	<b>965,602</b>	<b>955,618</b>	<b>944,775</b>
<b>Add Back: Management Fee</b>	<b>NA</b>	<b>357,000</b>	<b>747,000</b>	<b>922,590</b>	<b>941,042</b>	<b>959,863</b>	<b>979,060</b>
<b>Senior Net Income Available for Debt Service</b>	<b>NA</b>	<b>1,585,835</b>	<b>2,322,684</b>	<b>3,257,404</b>	<b>3,267,965</b>	<b>3,277,465</b>	<b>3,285,852</b>
<b>Senior Debt Service Coverage Ratio</b>	<b>NA</b>	<b>NA</b>	<b>1.86</b>	<b>2.39</b>	<b>2.40</b>	<b>2.41</b>	<b>2.41</b>

**Legacy Traditional Schools – Casa Grande and Queen Creek Campuses**

<b>Balance Sheet</b>	<b>6-30-2013</b>	<b>6-30-2014</b>	<b>6-30-2015</b>	<b>6-30-2016</b>	<b>6-30-2017</b>
<b>Assets</b>	<b>Combined</b>	<b>Combined</b>	<b>Combined</b>	<b>Combined</b>	<b>Combined</b>
Cash	1,099,144	3,481,570	5,848,465	8,192,718	10,166,513
Accounts Receivable	56,258	56,258	56,258	56,258	56,258
Notes receivable	1,234,856	823,237	411,619	-	-
<b>Total Current Assets</b>	<b>2,390,258</b>	<b>4,361,066</b>	<b>6,316,342</b>	<b>8,248,976</b>	<b>10,222,771</b>
Deferred Bond Issuance Cost	906,793	876,312	845,832	815,352	784,871
Repair and Replacement Fund	24,000	120,000	216,000	312,000	408,000
Security Deposit	16,170	16,170	16,170	16,170	16,170
Cash held by trustee	2,568,800	2,568,800	2,568,800	2,568,800	2,568,800
Land	15,082,382	15,082,382	15,082,382	15,082,382	15,082,382
Building	15,792,218	15,792,218	15,792,218	15,792,218	15,792,218
Furniture	199,871	219,871	239,871	259,871	279,871
Textbooks	354,547	454,547	554,547	654,547	754,547
Computers	62,956	82,956	102,956	122,956	142,956
Accumulated Dep	(307,459)	(842,265)	(1,377,070)	(1,911,876)	(2,446,681)
<b>Total Property and Equip</b>	<b>31,184,514</b>	<b>30,789,709</b>	<b>30,394,903</b>	<b>30,000,098</b>	<b>29,605,293</b>
<b>Total Assets</b>	<b>37,090,536</b>	<b>38,732,057</b>	<b>40,358,047</b>	<b>41,961,396</b>	<b>43,605,904</b>
<b>Liabilities and Net Assets</b>					
Accounts Payable	267,725	267,725	267,725	267,725	267,725
Note Payable	197,413	131,609	65,804	-	-
Prop 301 Overpayment	188,358	188,358	188,358	188,358	188,358
<b>Total Current Liabilities</b>	<b>653,496</b>	<b>587,692</b>	<b>521,887</b>	<b>456,083</b>	<b>456,083</b>
Revenue Bonds	36,330,000	35,850,000	35,350,000	34,825,000	34,275,000
<b>Total Liabilities</b>	<b>36,983,496</b>	<b>36,437,692</b>	<b>35,871,887</b>	<b>35,281,083</b>	<b>34,731,083</b>
Beginning Unrestricted Fund Balance	(337,447)	(19,749)	2,167,577	4,359,371	6,553,524
Net Increase (decrease) fund bal	317,698	2,187,326	2,191,795	2,194,153	2,194,509
<b>Ending Unrestricted Fund Balance</b>	<b>(19,749)</b>	<b>2,167,577</b>	<b>4,359,371</b>	<b>6,553,524</b>	<b>8,748,032</b>
Beg classroom site fund balance	126,789	126,789	126,789	126,789	126,789
Net Increase (decrease) fund bal	-	-	-	-	-
<b>End classroom site fund bal</b>	<b>126,789</b>	<b>126,789</b>	<b>126,789</b>	<b>126,789</b>	<b>126,789</b>
<b>Total Liabilities and Fund Balances</b>	<b>37,090,536</b>	<b>38,732,057</b>	<b>40,358,047</b>	<b>41,961,396</b>	<b>43,605,904</b>
Days of cash on hand	38	111	183	252	307
Requirement	30	30	30	30	30
Pass or Fail	PASS	PASS	PASS	PASS	PASS

**Legacy Traditional Schools – Casa Grande Campus**

<b>Balance Sheet</b>	<b>6-30-2013</b>	<b>6-30-2014</b>	<b>6-30-2015</b>	<b>6-30-2016</b>	<b>6-30-2017</b>
<b>Assets</b>	<b>Casa Grande</b>	<b>Casa Grande</b>	<b>Casa Grande</b>	<b>Casa Grande</b>	<b>Casa Grande</b>
Cash	664,982	2,232,769	3,790,206	5,333,455	6,449,755
Accounts Receivable	30,230	30,230	30,230	30,230	30,230
Notes receivable	1,234,856	823,237	411,619	-	-
<b>Total Current Assets</b>	<b>1,930,068</b>	<b>3,086,236</b>	<b>4,232,055</b>	<b>5,363,685</b>	<b>6,479,985</b>
Deferred Bond Issuance Cost	425,651	411,343	397,036	382,728	368,420
Repair and Replacement Fund	11,266	56,328	101,391	146,454	191,516
Security Deposit	16,170	16,170	16,170	16,170	16,170
Cash held by trustee	1,205,801	1,205,801	1,205,801	1,205,801	1,205,801
Land	7,065,306	7,065,306	7,065,306	7,065,306	7,065,306
Building	7,295,590	7,295,590	7,295,590	7,295,590	7,295,590
Furniture	110,393	120,393	130,393	140,393	150,393
Textbooks	205,658	255,658	305,658	355,658	405,658
Computers	32,274	42,274	52,274	62,274	72,274
Accumulated Dep	(126,726)	(379,116)	(631,506)	(883,896)	(1,136,285)
<b>Total Property and Equip</b>	<b>14,582,494</b>	<b>14,400,104</b>	<b>14,217,714</b>	<b>14,035,325</b>	<b>13,852,935</b>
<b>Total Assets</b>	<b>18,171,449</b>	<b>19,175,983</b>	<b>20,170,167</b>	<b>21,150,162</b>	<b>22,114,827</b>
<b>Liabilities and Net Assets</b>					
Accounts Payable	160,431	160,431	160,431	160,431	160,431
Note Payable	-	-	-	-	-
Prop 301 Overpayment	66,399	66,399	66,399	66,399	66,399
<b>Total Current Liabilities</b>	<b>226,830</b>	<b>226,830</b>	<b>226,830</b>	<b>226,830</b>	<b>226,830</b>
Revenue Bonds	17,053,388	16,798,702	16,533,403	16,254,839	15,963,010
<b>Total Liabilities</b>	<b>17,280,218</b>	<b>17,025,532</b>	<b>16,760,233</b>	<b>16,481,669</b>	<b>16,189,840</b>
Beginning Unrestricted Fund Balance	564,925	820,416	2,079,636	3,339,119	4,597,678
Net Increase (decrease) fund bal	255,491	1,259,220	1,259,483	1,258,559	1,256,494
<b>Ending Unrestricted Fund Balance</b>	<b>820,416</b>	<b>2,079,636</b>	<b>3,339,119</b>	<b>4,597,678</b>	<b>5,854,172</b>
Beg classroom site fund balance	70,815	70,815	70,815	70,815	70,815
Net Increase (decrease) fund bal	-	-	-	-	-
<b>End classroom site fund bal</b>	<b>70,815</b>	<b>70,815</b>	<b>70,815</b>	<b>70,815</b>	<b>70,815</b>
<b>Total Liabilities and Fund Balances</b>	<b>18,171,449</b>	<b>19,175,983</b>	<b>20,170,167</b>	<b>21,150,162</b>	<b>22,114,827</b>
Days of cash on hand	45	136	227	314	373
Requirement	30	30	30	30	30
Pass or Fail	PASS	PASS	PASS	PASS	PASS

**Legacy Traditional Schools – Queen Creek Campuses**

<b>Balance Sheet</b>	<b>6-30-2013</b>	<b>6-30-2014</b>	<b>6-30-2015</b>	<b>6-30-2016</b>	<b>6-30-2017</b>
<b>Assets</b>	<b>Queen Creek</b>	<b>Queen Creek</b>	<b>Queen Creek</b>	<b>Queen Creek</b>	<b>Queen Creek</b>
Cash	434,162	1,248,801	2,058,259	2,859,263	3,716,758
Accounts Receivable	26,028	26,028	26,028	26,028	26,028
Notes receivable	-	-	-	-	-
<b>Total Current Assets</b>	<b>460,190</b>	<b>1,274,829</b>	<b>2,084,287</b>	<b>2,885,291</b>	<b>3,742,786</b>
Deferred Bond Issuance Cost	481,142	464,969	448,796	432,624	416,451
Repair and Replacement Fund	12,734	63,672	114,609	165,546	216,484
Security Deposit	-	-	-	-	-
Cash held by trustee	1,362,999	1,362,999	1,362,999	1,362,999	1,362,999
Land	8,017,076	8,017,076	8,017,076	8,017,076	8,017,076
Building	8,496,628	8,496,628	8,496,628	8,496,628	8,496,628
Furniture	89,478	99,478	109,478	119,478	129,478
Textbooks	148,889	198,889	248,889	298,889	348,889
Computers	30,682	40,682	50,682	60,682	70,682
Accumulated Dep	(180,733)	(463,149)	(745,564)	(1,027,980)	(1,310,396)
<b>Total Property and Equip</b>	<b>16,602,020</b>	<b>16,389,605</b>	<b>16,177,189</b>	<b>15,964,773</b>	<b>15,752,358</b>
<b>Total Assets</b>	<b>18,919,086</b>	<b>19,556,074</b>	<b>20,187,881</b>	<b>20,811,233</b>	<b>21,491,077</b>
<b>Liabilities and Net Assets</b>					
Accounts Payable	107,294	107,294	107,294	107,294	107,294
Note Payable	197,413	131,609	65,804	-	-
Prop 301 Overpayment	121,959	121,959	121,959	121,959	121,959
<b>Total Current Liabilities</b>	<b>426,666</b>	<b>360,862</b>	<b>295,057</b>	<b>229,253</b>	<b>229,253</b>
Revenue Bonds	19,276,612	19,051,298	18,816,597	18,570,161	18,311,990
<b>Total Liabilities</b>	<b>19,703,278</b>	<b>19,412,160</b>	<b>19,111,655</b>	<b>18,799,414</b>	<b>18,541,243</b>
Beginning Unrestricted Fund Balance	(902,372)	(840,165)	87,940	1,020,252	1,955,845
Net Increase (decrease) fund bal	62,207	928,105	932,312	935,593	938,015
<b>Ending Unrestricted Fund Balance</b>	<b>(840,165)</b>	<b>87,940</b>	<b>1,020,252</b>	<b>1,955,845</b>	<b>2,893,860</b>
Beg classroom site fund balance	55,974	55,974	55,974	55,974	55,974
Net Increase (decrease) fund bal	-	-	-	-	-
<b>End classroom site fund bal</b>	<b>55,974</b>	<b>55,974</b>	<b>55,974</b>	<b>55,974</b>	<b>55,974</b>
<b>Total Liabilities and Fund Balances</b>	<b>18,919,086</b>	<b>19,556,074</b>	<b>20,187,881</b>	<b>20,811,233</b>	<b>21,491,077</b>
Days of cash on hand	31	83	135	184	235
Requirement	30	30	30	30	30
Pass or Fail	PASS	PASS	PASS	PASS	PASS

## LEGACY TRADITIONAL CHARTER SCHOOL

### SUMMARIES OF SIGNIFICANT ASSUMPTIONS IN THE BUDGET PROJECTION JUNE 30, 2013, 2014, 2015, 2016, AND 2017

#### **Note 1 – Basis of Presentation**

The purpose of the budget projection (the “Budget Projection”) is to evaluate the ability of Legacy Traditional Charter School (the “Borrower”) to meet the operating requirements, working capital requirements, and other financial requirements, associated with the proposed issuance by The Industrial Development Authority of the Town of Florence, Inc. (the “Issuer”), of its Education Revenue Bonds (Legacy Traditional School Project – Queen Creek and Casa Grande Campuses) Series 2013 (the “Series 2013 Bonds”). Proceeds of the Series 2013 Bonds will be used by the Borrower to: (i) finance the cost of acquiring, constructing, improving and equipping, as applicable, land and a building located at 41800 North Barnes Parkway, San Tan Valley, Arizona (the “Queen Creek Campus”) at which the Borrower operates its charter school known as “Legacy Traditional School – Queen Creek” (the “Queen Creek School”), and land and a building located at 1274 East O’Neil Drive, Casa Grande, Arizona (the “Casa Grande Campus” and, together with the Queen Creek Campus, the “Series 2013 Facilities”) at which the Borrower operates its charter school known as “Legacy Traditional School – Casa Grande” (the “Casa Grande School,” and together with the Queen Creek Schools, the “Schools”), to be owned by the Borrower and used in connection with its charter school operations, (ii) refinance certain equipment indebtedness of the Borrower relating to the Casa Grande Campus, (iii) fund the Series 2013 Account of the Debt Service Reserve Fund, and (iv) pay certain issuance expenses related to the Series 2013 Bonds (collectively, the “Series 2013 Project”) (the “Series 2013 Project”).

The Budget Projection presents, to the best of the Borrower’s knowledge and belief, the Borrower’s expected financial position, results of operations, changes in net assets and cash flows at June 30, 2013, 2014, 2015, 2016, and 2017, and for each of the years then ending (the “Projection Period”) with respect to the Schools. Accordingly, the Budget Projection reflects the Borrower’s judgment as of the date of this Budget Projection, of its expected conditions, and its expected course of action. The assumptions disclosed herein, while not all inclusive, are those that the Borrower believes are significant to its Budget Projection. **Furthermore, there will usually be differences between projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.**

The Borrower also owns and operates a charter school located at 17760 N Regent Drive, Maricopa, Arizona (the “Maricopa Campus”), known as “Legacy Traditional School – Maricopa” (the “Maricopa School”). *The revenues of the Maricopa School are not pledged to the Series 2013 Bonds and the revenues and expenses in connection with the Borrower’s operation of the Maricopa School are excluded from this Budget Projection.*

**Fundamental to the Budget Projection is the assumption that the operations of the Borrower will be competently and efficiently managed and its services professionally and consistently marketed. In addition, the validity of the Budget Projection will decrease substantially in proportion to the time elapsed since its preparation. The Borrower’s Budget Projection has been prepared in connection with the issuance of the Series 2013 Bonds. The Borrower does not intend to update its Budget Projection of the Borrower subsequent to the issuance of this Budget Projection. Accordingly, there are risks inherent to referring to or using this Budget Projection in the future as it may, and most likely will, become outdated.**

The assumed interest rates, principal payments, financing assumptions, and assumptions pertaining to the projected revenue, expenses, and cash flows are described in the section entitled “Summary of Projected Assumptions and Accounting Policies”. If actual interest rates, principal payments, funding requirements, or other financing assumptions related to the Series 2013 Bonds are different from those assumed, the principal amount of the Series 2013 Bonds and associated debt service requirements may need to be adjusted, accordingly, from those indicated in the Budget Projection. If interest rates, principal payments, and funding requirements are lower than those assumed, then such adjustments would not adversely affect the Budget Projection.

## **Note 2 – Project Financing**

### *Acquisition and Construction*

Pursuant to an Option to Purchase Real Property (the “Casa Grande Option”), to be exercised pursuant to the Lease Agreement, as amended by an Amended and Restated Closing Letter, dated February 13, 2013, the Borrower will purchase, using proceeds of the Series 2013 Bonds, the Casa Grande Campus from Portfolio Charter School Fund-CG, LLC, an Arizona limited liability company (the “Casa Grande Seller”). The Borrower will purchase the Casa Grande Campus for a purchase price of \$15,359,360 upon the terms set forth in the Casa Grande Option.

Pursuant to an Option to Purchase Real Property (the “Queen Creek Option”), to be exercised pursuant to the Lease Agreement, as amended by an Amended and Restated Closing Letter, dated February 13, 2013, the Borrower will purchase, using proceeds of the Series 2013 Bonds, the Queen Cree Campus from Portfolio Charter School Fund-QC, LLC, an Arizona limited liability company (the “Queen Creek Seller”). The Borrower will purchase the Queen Creek Campus for a purchase price of \$14,427,360 upon the terms set forth in the Queen Creek Option

The Casa Grande Seller and the Queen Creek Seller are each affiliates of The Charter School Fund, LLC (“TCSF”). The Borrower has entered into a development agreement for the construction of an addition to the Queen Creek Campus (the “Construction Project”) with TCSF. The Borrower has also entered into a guaranteed-maximum-price construction contract for the Construction Project (the “GMP”) with TCSF for the amount of \$3,001,067. In accordance with the terms of the GMP, TCSF will cause to be furnished and installed all of the materials and labor and cause to be performed all of the work for the construction required by TCSF in connection with the Construction Project. The GMP requires completion of the Construction Project within 149 days of the Commencement Date. Payment and performance bonds are required to be provided by TCSF under the terms of the GMP. The GMP includes an allowance of \$400,000 for furniture, fixtures, and equipment (“FF&E”).

### *Financing*

The Project is expected to be financed with proceeds from the Series 2013 Bonds, in the original aggregate principal amount of \$36,330,000.

For purposes of this Budget Projection, the Series 2013 Bonds are assumed to have a final maturity date of July 1, 2043, and bear interest rates between 4.75% and 6.00%.

Certain summaries, assumptions, rationale, and descriptions included in the Borrower’s Budget Projection are more fully described in the Limited Offering Memorandum pertaining to the Series 2013 Bonds. For more detailed information regarding the proposed terms, conditions, debt service requirements, and any other requirements of the Series 2013 Bonds, all of the Series 2013 Bonds financing-related documents should be read in their entirety.

## **Note 3 – Summary of Significant Accounting Policies**

### *Accounts Receivable*

Accounts receivable represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the Borrower, including amounts due from the Arizona Department of Education and from the Federal Government as a result of federal entitlements. No substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is deemed necessary. For the Projection Period the assumption is that the year-end balance would remain proportional to the amount owed at June 30, 2012.

### *Debt Service Reserve Fund*

A deposit of Series 2013 Bond proceeds will be held in an account of a reserve account for the benefit of the Series 2013 Bondholders (the “Series 2013 Reserve Fund”). For purposes of the Projections, the amount to be held in the Series 2013 Reserve Fund is assumed to be \$2,568,800. Proceeds from the Series 2013 Reserve Fund may be used to fund any deficiency in payment of principal or interest on the Series 2013 Bonds, while the Series 2013 Bonds are

outstanding. The Borrower does not anticipate using the principal of the Series 2013 Reserve Fund Reserve Fund during the Projection Period.

The Borrower also holds a deposit from proceeds of the Series 2009 Bonds (as hereinafter defined) in the amount of \$1,511,600 solely for the benefit of the Series 2009 Bondholders (the "Series 2009 Reserve Fund"). Proceeds from the Series 2009 Reserve Fund may be used to fund any deficiency in payment of principal or interest on the Series 2009 Bonds, while the Series 2009 Bonds are outstanding. The Borrower does not anticipate using the principal of the Series 2009 Reserve Fund Reserve Fund during the Projection Period. The Series 2009 Reserve Fund may not be used for the payment of principal and interest on the Series 2013 Bonds. See "Note 4" in this Appendix.

#### *Repair and Replacement Reserve*

Each monthly payment of rent includes amounts to be deposited in the Repair and Replacement Reserve Fund of approximately \$8,000 or such higher amount as required under the Loan Agreement. The Trustee will apply money in such fund to the payment of items of repair, improvement, and replacement with respect to the Project which constitute capital expenditures under generally accepted accounting principles. The Borrower request will identify the expenditures to be made by nature and amount, will identify the contractor or other party making the repairs, improvements, and replacements, and will certify that the expenditures are proper expenditures to be made or reimbursed from the Repair and Replacement Reserve Fund. Investment earnings on amounts held in the Repair and Replacement Reserve Fund will remain in, and be credited as received to, the Repair and Replacement Reserve Fund.

#### **Note 4 – Certain Long-Term Obligations**

In 2009, The Industrial Development Authority of the County of Pima (the "Pima IDA") issued its Education Revenue Bonds (Legacy Traditional School Project), Series 2009, in the original principal amount of \$16,040,000 (the "Series 2009 Bonds") for the benefit of the Borrower, \$15,900,000 of which remains outstanding as of January 1, 2013. Proceeds of the Series 2009 Bonds were used by the Borrower to finance the acquisition and improvement of the Maricopa School, and such Series 2009 Bonds are not secured by the Pledged Revenues or the Series 2013 Facilities.

Other than the Series 2009 Bonds, the Series 2013 Bonds, the capital leases and notes payable described in notes 6, 7 and 8 to the audited financial statements of the Borrower for the period ended June 30, 2012 and contained in APPENDIX E hereto, a \$236,000 equipment loan that financed equipment at four schools within the Legacy System, including the Casa Grande School and the Maricopa School (the "Equipment Loan"), the Borrower will have no other outstanding indebtedness on the date of issuance of the Series 2013 Bonds.

The capital leases are the current leases for the Queen Creek Campus and the Casa Grande Campus, which leases will be terminated as a result of the acquisition of such campuses by the Borrower on the date of issuance of the Series 2013 Bonds.

The notes payable described in footnote 7 of the audited financial statements of the Borrower refer to loans to the Borrower from board members and related parties (the "Related Party Notes") primarily Aaron Hale and William Gregory. The Related Party Notes are obligations of the Borrower, and are outstanding in the aggregate amount of \$345,238 as of June 30, 2012. The Related Party Notes were incurred in connection with the Maricopa Campus, and the Borrower intends to repay the Related Party Notes solely from the revenues of the Maricopa School. See note 7 of "APPENDIX E – AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011" in this Limited Offering Memorandum.

The Equipment Loan was entered into in October 2012 in the principal amount of \$236,000, the proceeds of such loan being used to finance equipment at the Casa Grande School, the Maricopa School and two other Legacy Schools. The Equipment Loan is a purchase money loan and is not secured by any interest in real estate. The Borrower is refinancing the portion of the Equipment Loan allocable to the Casa Grande Campus with a portion of the proceeds of the Series 2013 Bonds (approximately \$59,000). In connection with the issuance of the Series 2013 Bonds, the Borrower, the other Legacy Schools obligated on the Equipment Loan, and the lender for the Equipment Loan (First National Bank of Arizona) (the "Equipment Lender") will enter into a First Amendment to Equipment



Loan pursuant to which the Equipment Lender acknowledges that it does not have any interest (subordinate or otherwise) in the Pledged Revenues of the Schools and that the Equipment Lender will look solely to the Maricopa School and the other obligated Legacy Schools for the repayment of the Equipment Loan.

**Note 5- Interschool Loans and Subsequent Events Since June 30, 2012**

The notes payable described in footnote 8 of the audited financial statements represent loans payable by the Borrower to the Manager related to the Maricopa School and the Queen Creek School (collectively, the “Interschool Loans”). Such loans were funded by the Manager, in part, from proceeds of a loan made to the Manager by the Borrower allocable to the Casa Grande School (the note payable described in footnote 4 to such financial statements). The Manager subsequently loaned such funds to various Legacy Schools (including the Maricopa School and the Queen Creek School). Such loan amounts are shown on the table below.

	<u>Maricopa</u>	<u>Casa Grande</u>	<u>Queen Creek</u>	<u>Avondale</u>	<u>Chandler-Athlos</u>	<u>Tucson</u>	<u>Laveen</u>	<u>CFE</u>
Balances as of 6-30-12 - per audit	\$708,103	\$(771,111)	\$460,392	\$439,699	\$800,676	\$308,179	\$10,673	\$(1,956,611)

Subsequent to June 30, 2012, the amount owed to and from all Legacy Schools and the Manager fluctuated. Such amounts were used to fund operations at other Legacy Schools. The table below shows the amounts estimated by the Borrower and the Manager as of February 28, 2013, without accrued payroll.

	<u>Maricopa</u>	<u>Casa Grande</u>	<u>Queen Creek</u>	<u>Avondale</u>	<u>Chandler-Athlos</u>	<u>Tucson</u>	<u>Laveen</u>	<u>CFE</u>
Estimated balance as of 2-28-13 - without accrued payroll	\$227,337	\$(1,234,856)	\$197,413	\$182,092	\$717,155	\$(200,005)	\$344,087	\$(233,223)

Prior to issuance of the Series 2013 Bonds, the various Legacy Schools will repay all amounts owed to the Manager under the Interschool Loans and the Manager will then repay the account of the Borrower’s Casa Grande Campus. The former Interschool Loans involving the Manager are being settled for cash. Then, as shown on the table below, the Chandler-Athlos School and the Avondale School will incur loans with the Borrower as a substitute for the prior Interschool Loans. In addition, the amounts owed by the Queen Creek School and the Maricopa School to the Casa Grande School are netted for a net amount owed to the Borrower equal to \$810,106. The principal amount of each of the Borrower’s loans with the Chandler-Athlos School and the Avondale School are set forth in the table on the next page. The repayment of the notes from the Chandler-Athlos School and the Avondale School to the Borrower will be paid after payment of such Legacy Schools current lease obligation for their respective campus. The Chandler-Athlos and Avondale loans will bear interest at 8% per annum with interest and principal paid annually. The note will be repaid to the Borrower by the end of fiscal year 2016. The restructuring of the Interschool Loans is due to a change in process between the Borrower and the Manager. Under the terms of the Loan Agreement, the Borrower is prohibited from making loans to Affiliates unless the Borrower has 150 Days Cash on Hand.

Summary	LTCS	Avondale	Chandler- Athlos	Tucson	Laveen	CFE
Notes Payable to CFE at 6-30-2012*	(397,384)	(439,699)	(800,676)	(308,179)	(10,673)	(1,956,611)
Activity with CFE- pay back or (borrow)	397,384	439,699	800,676	308,179	(222,550)	1,723,388
Notes Payable to CFE at 3-2013	0	0	0	0	(233,223)	(233,223)
Notes receivable (payable) to LTCS at 3-2013	810,106	(182,092)	(628,014)			
Notes receivable (payable) to Tucson at 3-2013			(89,141)	200,005	(110,864)	

\* The notes payable to the Manager from the Borrower due July 1, 2013 and the due on demand note receivable from the Manager to the Borrower outstanding as of June 30, 2012 did not contain any right of offset. The amount set forth in the column under the heading LTCS is the net amount shown of (\$397,384) and is solely for presentation purposes. The actual amounts due and owing under the notes is shown in the top table on the prior page.

See also "APPENDIX F - UNAUDITED INTERIM FINANCIAL STATEMENTS OF THE BORROWER FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2012" and "APPENDIX A - THE BORROWER AND THE SCHOOLS - OTHER INDEBTEDNESS" in this Limited Offering Memorandum.

## Note 6 – Projected Revenues

### Revenues

Arizona charter schools receive funding from state, local and federal sources. The primary source of funding for Arizona charter schools is State funding. The most significant variable is the number of students. See "APPENDIX A - THE CHARTER SCHOOL AND THE SERIES 2013 PROJECT - ENROLLMENT" for the projected number of students per grade level per year.

### State Funding

The funds received from the State are paid on a per pupil basis and are generated by enrollment, with adjustments in payments made during each year based on designated dates for counting students enrolled. The actual amount for that year is determined by adding the amount of the statutorily set base support level and the Additional Assistance for such year and requires a number of formula driven calculations using the Uniform System of Financial Records for Charter Schools ("USFRCS"), which is regulated by the State Auditor General. See also "APPENDIX C - CHARTER SCHOOLS IN ARIZONA" for additional details on the calculation of state aid for charter schools.

The Projections are based on the assumption that funds received from the State in upcoming years will continue to increase at approximately the same rate as prior years. Overall, prior to the Equalization Adjustment, State per-student funding has increased from \$5,814 to \$6,001 over the last two years - an increase of 3.2 percent or approximately 1.6 percent per year as a result of the State increasing funding by adding new programs, adjusting for inflation and new voter resolutions. The Projections therefore assume a 1.5 percent increase as an average for total State Revenues starting for the fiscal year ending June 30, 2014. See "APPENDIX E - AUDITED FINANCIAL STATEMENTS OF THE BORROWER FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011 - Note 16" for a discussion of the Equalization Adjustment.

**State Aid – Per Student**

	<u>2010- 2011</u>	<u>2011- 2012</u>	<u>2012- 2013</u>	<u>2013- 2014</u>	<u>2014- 2015</u> 1.5% increase	<u>2015- 2016</u> 1.5% increase	<u>2016- 2017</u> 1.5% increase
Equalization Payments							
Base Calculation	\$3,817	\$3,784	\$3,784	\$3,841	\$3,898	\$3,957	\$4,016
Additional Assistance	1,613	1,622	1,654	1,679	1,704	1,730	1,756
K-3 and Special Needs	207	226	266	270	274	278	282
Total Equalization	<u>\$5,637</u>	<u>\$5,632</u>	<u>\$5,704</u>	<u>\$5,790</u>	<u>\$5,876</u>	<u>\$5,965</u>	<u>\$6,054</u>
Equalization Adjustment	(98)	(127)					
<b>Total</b>	<u>\$5,539</u>	<u>\$5,504</u>	<u>\$5,704</u>	<u>\$5,790</u>	<u>\$5,876</u>	<u>\$5,965</u>	<u>\$6,054</u>
Prop 301 Funds	\$140	\$139	\$257	\$261	\$265	\$269	\$273
Instructional	37	40	40	41	41	42	42
<b>Total State Funding</b>	<u>\$5,716</u>	<u>\$5,683</u>	<u>\$6,001</u>	<u>\$6,092</u>	<u>\$6,182</u>	<u>\$6,276</u>	<u>\$6,369</u>

The fiscal year 2012-2013 State Aid and the projected 2013-2014 through 2016-2017 state aid for the Schools is summarized in the table below:

**Total State Aid**

	<u>2012- 2013</u>	<u>2013- 2014</u>	<u>2014- 2015</u>	<u>2015- 2016</u>	<u>2016- 2017</u>
Equalization Payments	9,858,240	12,333,925	12,518,934	12,706,718	12,897,318
Instructional	69,120	86,478	87,775	89,092	90,428
Prop 301 Funds	444,096	555,621	563,955	572,415	581,001
<b>Total State Funding</b>	<u>10,371,456</u>	<u>12,976,024</u>	<u>13,170,664</u>	<u>13,368,225</u>	<u>13,568,747</u>

The Borrower has assumed that state aid revenues will increase 1.5% each year. The Borrower has also assumed that the student count will increase during the Projection Period, as shown in “APPENDIX A - THE BORROWER AND THE SCHOOLS – STUDENT ENROLLMENT - Historical and Projected Student Enrollment by Grade Level” in this Limited Offering Memorandum.

*Federal Funding*

Public charter school students are similar to traditional school district students with respect to eligibility for federal entitlement programs. The federal funds received by the Borrower comprise approximately 5% of the total revenue of the Borrower. These funds are presented in the form of grants. The primary grants are Title I, Title II, and federal special education (IDEA grants) aid. The Borrower has assumed that federal aid revenues will increase 1.5% each year.

*Other Operating Revenue*

The Borrower has projected other operating revenue to include income from meals, after school programs (including the “KEEP” program), contributions including those received through the state tax credit program, and other miscellaneous revenue. Estimates of future revenues from Other Operating Revenue sources are projected by the Borrower to increase 1.5% each year.

*Interest Income*

Interest income consists of interest earned on available cash, investments and assets limited as to use. The Borrower has made certain assumptions as to the interest earnings. For the purpose of this Budget Projections, such interest income does not include earnings on any funds held by the Trustee under the Indenture.

**Note 7 – Projected Expenses**

The projected expenses are based on the Borrower’s judgment and experience in the management and ownership of charter schools, as well as its historical experience operating the Schools. The Borrower has used estimated inflationary increases related to certain future projected expenses.

*Expenses*

Projected expenses include the salaries, benefits, instructional materials, and other operating expenses required to operate the Schools. Expenses are projected to increase as shown during the Projection Period:

<b>Expenses by Department</b>	<b>2012-2013</b>	<b>2013-2014</b>	<b>2014-2015</b>	<b>2015-2016</b>	<b>2016-2017</b>
Salaries	4,600,050	5,155,202	5,340,758	5,500,980	5,666,010
Benefits	598,007	670,176	694,298	715,127	736,581
Capital Lease Interest Expense	1,894,942	-	-	-	-
Interest Expense on Property	620,730	2,088,438	2,065,638	2,041,888	2,016,950
Bond Cost	-	27,945	27,599	27,237	26,857
Management Fee	1,555,200	1,955,340	1,994,447	2,034,336	2,075,022
Depreciation	525,984	534,805	534,805	534,805	534,805
Amortization of bond cost	7,620	30,480	30,480	30,480	30,480
Maintenance Budget	336,000	418,028	422,209	426,431	430,695
Principal School Budget	354,800	441,418	445,832	450,290	454,793
Special Education Budget	227,400	285,175	288,027	290,908	293,817
Marketing Budget	40,000	49,765	50,263	50,766	51,273
Food Budget	271,074	320,672	325,485	330,394	335,402
<b>Total Expenditures</b>	<b>11,031,806</b>	<b>11,977,445</b>	<b>12,219,841</b>	<b>12,433,642</b>	<b>12,652,686</b>

*Salaries*

The projected general salaries and benefits expense for the 2012-2013 fiscal year are expected to be \$5,276,027 which includes \$77,920 of salaries included in Food Budget. Salaries are assumed to increase by approximately 3% per year for inflation after the 2012-2013 fiscal year.

The total projected full-time equivalents for Queen Creek and Casa Grande by function for the next five fiscal years are presented in the following table:

<b>Years</b>	<b>Teachers</b>	<b>Administrators</b>	<b>Office &amp; Health</b>	<b>Instructional Support</b>	<b>Food Services</b>	<b>Facilities</b>	<b>Total</b>
2012-2013	85	6	8	17	7	8.5	131.5
2013-2014	92	6	10	17	8	10	143
2014-2015	92	6	10	17	8	10	143
2015-2016	92	6	10	17	8	10	143
2016-2017	92	6	10	17	8	10	143

The Borrower anticipates adding teacher FTEs as enrollment increases. The Borrower projects a student to teacher ratio of 23:1 at the Casa Grande School and 24:1 at the Queen Creek School beginning in the 2013-2014 school year. The following is a schedule of teacher FTE positions for the five years of the Budget Projection:

**Teacher FTE Count by Fiscal Year**

**Casa Grande School**

<u>Section</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
K	2.5	2.5	2.5	2.5	2.5
1	5	5	5	5	5
2	4	5	5	5	5
3	4	5	5	5	5
4	5	5	5	5	5
5	5	5	5	5	5
6	4	4	4	4	4
Spanish	0.5	1	1	1	1
Phy Ed	2	2	2	2	2
Arts	0.5	1	1	1	1
Music	2	2	2	2	2
Science	1	1	1	1	1
History	1	1	1	1	1
Special Ed	2	2	2	2	2
English	2	2	2	2	2
Math	1	1	1	1	1
Gifted	0.5	1	1	1	1
Computers	0.5	1	1	1	1
Speech	0	1	1	1	1
<b>Total</b>	<b>42.5</b>	<b>47.5</b>	<b>47.5</b>	<b>47.5</b>	<b>47.5</b>

**Queen Creek School**

<u>Section</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
K	2.5	2.5	2.5	2.5	2.5
1	5	5	5	5	5
2	5	5	5	5	5
3	4	4	4	4	4
4	4	4	4	4	4
5	4	4	4	4	4
6	3	3	3	3	3
Spanish	0.5	1	1	1	1
Phy Ed	2	3	3	3	3
Arts	0.5	1	1	1	1
Music	2	2	2	2	2
Science	1	1	1	1	1
History	1	1	1	1	1
Special Ed	2	2	2	2	2
English	2	2	2	2	2
Math	1	1	1	1	1
Gifted	1	1	1	1	1
Computers	1	1	1	1	1
Speech	1	1	1	1	1
<b>Total</b>	<b>42.5</b>	<b>44.5</b>	<b>44.5</b>	<b>44.5</b>	<b>44.5</b>

### *Employee Benefits*

All regular full-time employees (an employee who works at least 35 hours per week) are eligible for health, dental, vision, life, accidental death or dismemberment, short-term disability and long-term disability insurance. The Borrower contributes 62% - 81% (depending on the plan they choose) of full-time employees' premium coverage for single medical insurance. The Borrower additionally contributes 5%-34% for dependents' health premiums. The Borrower provides 100% coverage for employee's basic life, accidental death or dismemberment, short term disability and long term disability insurance. The Borrower provides a monthly contribution to all HSA debit cards for the employee with an additional contribution for those with dependents on the HSA plan. The Borrower offers eligible employees the opportunity for participate in supplemental voluntary life, dental, vision and flexible spending account plans with the Employee responsible for those premiums.

The Borrower contributes a 100% matching amount of up to 6% of an eligible employee's salary to a 401(3)(b) retirement plan. Employees are eligible to participate in the match after three consecutive months of employment. The amounts contributed by the Borrower vest immediately.

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**Include Three Years of Historical Financial Information in the Form of Audited Financials**

- See APPENDIX C and D for **three** years of audited financials and interim financials.
- 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 with 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.

**APPENDIX C**

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



INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
International Leadership Charter School

We have audited the accompanying statements of financial position of International Leadership Charter School (the "Charter School") as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Leadership Charter School as of June 30, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012 on our consideration of International Leadership Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Charter School as a whole. The schedule of functional expenses for the period ending June 30, 2012 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

O'Connor Davies, LLP

New York, New York  
November 9, 2012

## International Leadership Charter School

### Statements of Financial Position

	June 30,	
	2012	2011
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 895,309	\$ 706,453
Accounts receivable	110,261	24,961
Prepaid expenses	934	3,462
Funds held in escrow and other deposits	142,737	392,737
Total Current Assets	1,149,241	1,127,613
Property and equipment, net	3,279,869	115,277
	\$ 4,429,110	\$ 1,242,890
 <b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 273,564	\$ 234,904
Line of Credit	100,000	-
Short term loan payable - Promesa Enterprises, Ltd.	150,000	-
Short term loan payable - KIMSL 231st Street LLC	1,750,000	-
Total Current Liabilities	2,273,564	234,904
Note payable - Capital One	1,000,000	250,000
Total Liabilities	3,273,564	484,904
Net Assets - Unrestricted	1,155,546	757,986
	\$ 4,429,110	\$ 1,242,890

## International Leadership Charter School

### Statements of Activities

<b>UNRESTRICTED</b>	Year ended June 30,	
<b>REVENUE AND SUPPORT</b>	2012	2011
Public School District -		
State and local per pupil operating revenue	\$ 3,999,107	\$ 4,185,474
Government grants and contracts	215,052	398,436
Contributions	130,760	3,156
Other income	60,080	33,312
Total Revenue and Support	4,404,999	4,620,378
 <b>EXPENSES</b>		
Education services	3,038,764	3,346,280
Management and general	968,675	966,862
Total Expenses	4,007,439	4,313,142
Change in Net Assets	397,560	307,236
 <b>NET ASSETS</b>		
Beginning of year	757,986	450,750
End of year	\$ 1,155,546	\$ 757,986

## International Leadership Charter School

### Statements of Cash Flows

	Year ended June 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 397,560	\$ 307,236
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	62,152	370,146
Changes in operating assets and liabilities		
Accounts receivable	(85,300)	(21,580)
Prepaid expenses	2,528	(1,274)
Accounts payable and accrued expenses	38,660	8,582
Net Cash from Operating Activities	415,600	663,110
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(3,226,744)	(32,380)
Funds held in escrow	250,000	(250,000)
Net Cash from Operating Activities	(2,976,744)	(282,380)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowing	2,750,000	250,000
Net Change in Cash and Cash Equivalents	188,856	630,730
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	706,453	75,723
End of Year	\$ 895,309	\$ 706,453

## International Leadership Charter School

### Notes to Financial Statements June 30, 2012 and 2011

#### 1. Organization and Tax Status

The International Leadership Charter School (the "Charter School") is an educational corporation that operates in the borough of the Bronx, New York City. On January 10, 2006, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration. On January 11, 2011, the Board of Regents of the University of the State of New York extended the provisional charter, and any amendments thereto, up to and including June 30, 2015.

The fiscal year ended June 30, 2012 is the sixth year of operation for the Charter School. During the fiscal year, the Charter School operated classes for students in the 9<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup> and 12<sup>th</sup> grades.

The Charter School's mission is to provide a rigorous curriculum, and a disciplined environment and supportive community where students are academically and socially prepared to excel in demanding college and university settings.

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

#### 2. Summary of Significant Accounting Policies

##### *Use of Estimates and Basis of Presentation*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies, if any, at the date of the financial statements, and the reported amounts of support and revenue and expenses during the period then ended. Actual results could differ from those estimates.

The net assets of the Charter School and changes therein are classified as unrestricted, temporarily restricted and permanently restricted based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets represent contributions with donor imposed restrictions that have not yet been satisfied or are time restricted. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Permanently restricted net assets are those which are established by donor gifts to provide a permanent endowment. There were no temporarily or permanently restricted net assets at June 30, 2012.

## International Leadership Charter School

Notes to Financial Statements  
June 30, 2012 and 2011

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Revenue Recognition***

Revenue from the state and local governments resulting from the Charter School's charter status is based on the number of students enrolled, and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts is recognized by the Charter School when qualifying expenditures are incurred.

The Charter School follows Financial Accounting Standards Board (FASB) guidance on Accounting for Contributions Received and Contributions Made. Accordingly, contributed services are recognized as revenue and assets or expenses at fair value if those services (a) create or enhance nonfinancial assets, (b) would typically need to be purchased by the Charter School if they had not been provided by contribution; or (c) require specialized skills and are provided by individuals with those skills.

A number of volunteers have made a contribution of their time to the Charter School to develop its programs and to serve on the Charter School's board of trustees. The value of such contributed time is not reflected in these financial statements because it does not meet the criteria for recognition.

#### ***Contributions and Unconditional Promises to Give***

Contributions received and unconditional promises to give are measured at their fair values and are classified as unrestricted, temporarily restricted, or permanently restricted support. If donor restrictions are met within the same reporting period as when the contribution was made, those contributions are recorded as unrestricted support.

#### ***Accounting For Uncertainty in Income Taxes***

The Charter School recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Charter School has no uncertain tax positions that would require financial statement recognition. The Charter School is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2009.

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

For purposes of the statement of cash flows, the Charter School considers all highly liquid investments, with a maturity of three months or less at the time of purchase to be cash equivalents. Included in Cash and Cash Equivalents is a reserve fund of \$70,000 to cover debts in the event of the Charter School's dissolution.

## International Leadership Charter School

Notes to Financial Statements  
June 30, 2012 and 2011

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Property and Equipment***

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$1,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or term of the related lease. Property and equipment acquired with certain government contract funds are recorded as expenses when the government retains title to such assets.

#### ***Functional Expenses***

Expenses are classified according to the functional categories for which they are incurred, as follows:

Education services – represents expenses directly associated with general education and special educational for certain students requiring additional attention and guidance.

Management and general – represents expenses related to the overall administration and operation of the Charter School that are not associated with any education services or fundraising.

Fundraising – represents expenses related to efforts to raise additional funds for the Charter School not earned by their pupil revenue and grants from federal, state and local government.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 9, 2012 and has accounted for or disclosed such events, as appropriate, in these financial statements.

### 3. Concentration of Credit Risk and Revenue

The Charter School maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Charter School has not experienced any losses in these accounts.

The Charter School also receives a majority of its revenues from the New York State Education Department through the New York City Department of Education. The New York State Education Department provides general operating support to the Charter School based upon the location and the number of students enrolled. Per Pupil General Education and Special Education support provided to the Charter School totaled \$3,999,107 and \$4,195,474 for the years ending June 30, 2012 and 2011. The Charter School is dependent upon this level of funding in order to continue its operations.

## International Leadership Charter School

### Notes to Financial Statements June 30, 2012 and 2011

#### 4. Property and Equipment, Net

Property and equipment consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 2,530,000	\$ -
Computers and other equipment	271,750	215,357
Furniture and fixtures	57,642	57,642
Leasehold improvements	836,030	836,030
Pre-construction costs	<u>640,351</u>	<u>-</u>
	4,335,773	1,109,029
Less: Accumulated depreciation	<u>1,055,904</u>	<u>993,752</u>
	<u>\$ 3,279,869</u>	<u>\$ 115,277</u>

Leasehold improvements include a build-out of a science laboratory to support instruction in biology, chemistry and physics. These subjects are critical to students completing their graduation requirements and receiving a Regents-endorsed diploma in accordance with the Charter approved by the New York State Education Department. The improvements also include the build-out of six additional classrooms, which are necessary to build the required capacity for teaching the required courses for the 11<sup>th</sup> and 12<sup>th</sup> grades under the requirements of the New York State Regents. Further, an additional class space provided the capacity to accommodate the enrollment requirements for and compliance with the Charter School's goals for expansion at year three.

Leasehold improvements of \$350,000 were funded through a State Stimulus grant awarded in prior years by the State University of New York Charter School Institute.

Land and construction in progress pertain to the parcel of land purchased by the Charter School for the site of its future educational facility.

Depreciation expense for the years ended June 30, 2012 and 2011 were \$62,152 and \$370,146 respectively.



## International Leadership Charter School

### Notes to Financial Statements June 30, 2012 and 2011

#### 5. Loans Payable and Line of Credit

The Charter School is currently in pursuit of obtaining private financing to build a state of the art facility that will allow for hundreds of students to follow their dream for a college education and enhance our community. The financing of the land is part of a long term strategic expansion plan to acquire the facility that will benefit the students, staff and community by opening enrollment to approximately 25% additional students and creating new jobs.

The Charter School made a promissory note payable to Capital One, N.A. (the "Bank") on May 31, 2011 wherein the Charter School may borrow and repay, in whole or in part, amounts up to \$1,000,000 until September 1, 2011. As of June 30, 2012 and 2011, the Charter School has borrowed a total of \$1,000,000 and \$250,000, respectively.

Monthly payments of interest commenced on July 1, 2011, due on the first day of each month, at the floating rate equal to the Bank's prime lending rate minus 0.25%. Commencing October 1, 2011 and on the first day of each month thereafter, monthly interest payments shall be due until June 1, 2014, when all principal and interest will be due in full. Prepayment in whole or in part may be made at anytime without penalty. Payments by the Charter School shall be applied first to interest then to reduction of principal.

The note payable is secured by an interest in the Charter School's savings and reserve account, pursuant to the Pledge Agreement entered into by the Charter School and the Bank on May 31, 2011.

On February 8, 2012, the Charter School made a short term promissory note to KIMSL 231 Street LLC., the seller of the purchased parcel of land, for the balance not financed by the Bank, amounting to \$1,750,000, payable in full on November 22, 2012 at a rate of 6.5% per annum from February 8 through August 7, 2012 and 7.5% per annum from August 8 through November 22, 2012. The loan maturity is extended through March 2013.

On June 25, 2012, the Charter School made a short term promissory note to Promesa Enterprises Ltd. for \$150,000 at an interest rate of 5% per annum. The amount is payable 90 days from the date of the note's execution. This note was paid in full on September 23, 2012.

Principal payments due on these notes by fiscal year are as follows:

2013	\$ 1,900,000
2014	<u>1,000,000</u>
	<u>\$ 2,900,000</u>

In addition, the Charter School has an outstanding line of credit with Capital One for \$100,000, with an annual percentage rate of 4%, which is fully utilized as of June 30, 2012.

Interest expense on these promissory notes and line of credit was \$73,332 for the year ended June 30, 2012.

As of the audit date, the Charter School is continuing discussions to obtain the required capital project financing through tax-exempt revenue bonds. Management believes that a financing contract will be achieved within the next 120 days.

## International Leadership Charter School

### Notes to Financial Statements June 30, 2012 and 2011

#### **6. Commitments**

The Charter School's has an operating lease agreement with an unrelated third party in a commercial facility in the Bronx, New York for its administrative offices and instructional location expired on August 15, 2011. The lease agreement included an option to extend for another five-year period. Since August 16, 2011, the Charter School entered into a month-to-month arrangement while in the process of negotiating an agreement to extend the lease for an additional eighteen months. The monthly lease payment is \$52,049, which is subject to an annual consumer price index escalation adjustment until a new lease is negotiated and finalized.

#### **7. Contingencies**

Certain grants and contracts are subject to audit by funding sources. Such audits may result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have material effect on the accompanying financial statements.

#### **8. Employee Benefit Plan**

The Charter School maintains a deferred compensation plan for all qualified employees. The Charter School elects to make contributions to the plan on a discretionary basis. For the years ended June 30, 2012 and 2011, the Charter School had not contributed to the plan.

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**International Leadership Charter School  
Additional Information**

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## International Leadership Charter School

### Schedule of Functional Expenses

Year Ended June 30, 2012

(With summarized totals for the year ended June 30, 2011)

	Education Services	Management and General	Totals	
			2012	2011
Salaries	\$ 912,063	\$ 241,042	\$ 1,153,105	\$ 1,320,519
Payroll taxes and benefits	512,798	135,523	648,321	734,786
Curricula and books	55,952	-	55,952	79,153
Instructional supplies and equipment	23,925	-	23,925	40,799
Student meals	149,897	-	149,897	138,836
Contractual services	67,903	17,945	85,848	52,548
Professional services	143,419	37,903	181,322	252,618
Marketing and recruiting	7,123	27,762	34,885	27,762
Office supplies	382	62,619	63,001	62,619
Postage, printing and subscriptions	14,558	3,847	18,405	41,408
Rent	488,779	129,175	617,954	570,948
Utilities	94,493	24,973	119,466	132,335
Security	97,675	25,814	123,489	113,236
Facility maintenance and equipment	154,853	40,925	195,778	92,601
Insurance	25,690	6,790	32,480	36,400
Travel	31,624	8,358	39,982	31,985
Professional development	24,734	144,449	169,183	144,449
Local taxes	51,654	13,651	65,305	-
Depreciation	49,160	12,992	62,152	370,146
Other expenses	132,082	34,907	166,989	69,994
<b>Totals</b>	<b>\$ 3,038,764</b>	<b>\$ 968,675</b>	<b>\$ 4,007,439</b>	<b>\$ 4,313,142</b>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

**To the Board of Trustees  
International Leadership Charter School**

We have audited the financial statements of International Leadership Charter School (the "Charter School") as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated November 9, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

Management of the Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Charter School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

**Board of Trustees  
International Leadership Charter School  
Page 2**

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, the Department of Education of the City of New York, the State Education Department of the University of the State of New York and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*O'Connell Davies, LLP*

New York, New York  
November 9, 2012

**International Leadership Charter School**

Financial Statements

June 30, 2011 and 2010

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O'Connor Davies Munns & Dobbins, llp  
ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

### To the Board of Trustees International Leadership Charter School

We have audited the accompanying statements of financial position of International Leadership Charter School (the "Charter School") as of June 30, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Leadership Charter School as of June 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011 on our consideration of International Leadership Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*O'Connor Davies Munns & Dobbins, llp*

New York, New York  
October 7, 2011



**International Leadership Charter School**

**Statements of Financial Position**

June 30,

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 706,453	\$ 75,723
Accounts receivable	24,961	3,381
Prepaid expenses	3,462	2,188
Funds held in escrow and other deposits	392,737	142,737
Property and equipment, net	<u>115,277</u>	<u>453,043</u>
	<u>\$ 1,242,890</u>	<u>\$ 677,072</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 234,904	\$ 226,322
Note payable	<u>250,000</u>	<u>-</u>
Total Liabilities	484,904	226,322
Net Assets - Unrestricted	<u>757,986</u>	<u>450,750</u>
	<u>\$ 1,242,890</u>	<u>\$ 677,072</u>

See notes to financial statements

**International Leadership Charter School**

Statements of Activities

Years Ended June 30,

<b>UNRESTRICTED</b>	<u>2011</u>	<u>2010</u>
<b>REVENUE AND SUPPORT</b>		
Public School District -		
State and local per pupil operating revenue	\$ 4,185,474	\$ 4,212,629
Government grants and contracts	398,436	302,408
Contributions	3,156	100
Donated services	-	2,500
Other income	<u>33,312</u>	<u>19,215</u>
Total Revenue and Support	<u>4,620,378</u>	<u>4,536,852</u>
<b>EXPENSES</b>		
Education services	3,346,280	3,348,706
Management and general	<u>966,862</u>	<u>1,036,074</u>
Total Expenses	<u>4,313,142</u>	<u>4,384,780</u>
Change in Net Assets	307,236	152,072
<b>NET ASSETS</b>		
Beginning of year	<u>450,750</u>	<u>298,678</u>
End of year	<u>\$ 757,986</u>	<u>\$ 450,750</u>

See notes to financial statements

## International Leadership Charter School

### Statements of Cash Flows

Years Ended June 30,

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 307,236	\$ 152,072
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	370,146	368,822
Changes in operating assets and liabilities		
Accounts receivable	(21,580)	(900)
Prepaid expenses	(1,274)	1,778
Other deposits	-	1,125
Accounts payable and accrued expenses	8,582	(298,353)
Due to related party	-	(32,600)
Due to SUNY-CSI	-	(100,000)
Net Cash from Operating Activities	663,110	91,944
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(32,380)	(83,881)
Funds held in escrow	(250,000)	-
Net Cash from Operating Activities	(282,380)	(83,881)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowing	250,000	-
Net Change in Cash and Cash Equivalents	630,730	8,063
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	75,723	67,660
End of Year	\$ 706,453	\$ 75,723

See notes to financial statements

## International Leadership Charter School

### Notes to Financial Statements

#### 1. Organization and Tax Status

The International Leadership Charter School (the "Charter School") is an educational corporation that operates in the borough of the Bronx, New York City. On January 10, 2006, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

The fiscal year ended June 30, 2011 is the fifth year of operation for the Charter School. During the fiscal year, the Charter School operated classes for students in the 9<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup> and 12<sup>th</sup> grades.

The Charter School's mission is to provide a rigorous curriculum, and a disciplined environment and supportive community where students are academically and socially prepared to excel in demanding college and university settings.

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

#### 2. Summary of Significant Accounting Policies

##### *Contributions and Unconditional Promises to Give*

The Charter School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Charter School reports amounts received with donor stipulations that limit the use of the assets for certain purposes as unrestricted net assets if the stipulated purpose restriction is accomplished in the same year. Contributions of assets other than cash are recorded at their estimated fair value.

##### *Revenue Recognition*

Revenue from the state and local governments resulting from the Charter School's charter status is based on the number of students enrolled, and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts is recognized by the Charter School when qualifying expenditures are incurred.

## International Leadership Charter School

### Notes to Financial Statements

#### 2. Summary of Significant Accounting Policies *(continued)*

##### *Revenue Recognition (continued)*

The Charter School follows Financial Accounting Standards Board (FASB) guidance on Accounting for Contributions Received and Contributions Made. Accordingly, contributed services are recognized as revenue and assets or expenses at fair value if those services (a) create or enhance nonfinancial assets, (b) would typically need to be purchased by the Charter School if they had not been provided by contribution or (c) require specialized skills and are provided by individuals with those skills.

A number of volunteers have made a contribution of their time to the Charter School to develop its programs and to serve on the Charter School's board of trustees. The value of such contributed time is not reflected in these financial statements because it does not meet the criteria for recognition.

##### *Accounting For Uncertainty in Income Taxes*

Management has determined that the Charter School has no uncertain tax positions that would require financial statement recognition. The Charter School is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2008.

##### *Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Charter School considers all highly liquid investments, with a maturity of three months or less at the time of purchase to be cash equivalents.

##### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from these estimates.

## International Leadership Charter School

### Notes to Financial Statements

#### 2. Summary of Significant Accounting Policies *(continued)*

##### *Property and Equipment*

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$1,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or term of the related lease. Property and equipment acquired with certain government contract funds are recorded as expenses when the government retains title to such assets.

##### *Functional Expenses*

Expenses are classified according to the functional categories for which they are incurred, as follows:

Education services – represents expenses directly associated with general education and special educational for certain students requiring additional attention and guidance.

Management and general – represents expenses related to the overall administration and operation of the Charter School that are not associated with any education services or fundraising.

Fundraising – represents expenses related to efforts to raise additional funds for the Charter School not earned by their pupil revenue and grants from federal, state and local government.

##### *Subsequent Events Evaluation by Management*

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 7, 2011 and has accounted for or disclosed such events, as appropriate, in these financial statements.

#### 3. Concentration of Credit Risk

The Charter School maintains its cash and cash equivalents in bank deposit accounts which, at times may exceed federally insured limits. The Charter School has not experienced any losses in these accounts.

## International Leadership Charter School

### Notes to Financial Statements

#### 4. Property and Equipment, Net

Property and equipment consist of the following at June 30:

	2011	2010
Computers and other equipment	\$ 215,357	\$ 182,977
Furniture and fixtures	57,642	57,642
Leasehold improvements	836,030	836,030
	1,109,029	1,076,649
Less: Accumulated depreciation	993,752	623,606
	\$ 115,277	\$ 453,043

Leasehold improvements include a build-out of a science laboratory to support instruction in biology, chemistry and physics. These subjects are critical to students completing their graduation requirements and receiving a Regents-endorsed diploma in accordance with the Charter approved by the New York State Education Department. The improvements also include the build-out of six additional classrooms, which are necessary to build the required capacity for teaching the required courses for the 11<sup>th</sup> and 12<sup>th</sup> grades under the requirements of the New York State Regents. Further, an additional class space provided the capacity to accommodate the enrollment requirements for and compliance with the Charter School's goals for expansion at year three.

Leasehold improvements of \$350,000 were funded through a State Stimulus grant awarded in prior years by the State University of New York Charter School Institute.

Depreciation expense for the years ended June 30, 2011 and 2010 were \$370,146 and \$368,822 respectively.

#### 5. Note Payable

The Charter School made a promissory note payable to Capital One, N.A. (the "Bank") on May 31, 2011 wherein the Charter School may borrow and repay, in whole or in part, amounts up to \$1,000,000 until September 1, 2011. As of June 30, 2011, the Charter School has borrowed a total of \$250,000. The Charter School borrowed additional \$750,000 on August 10, 2011.

Monthly payments of interest shall only commence on July 1, 2011, due on the first day of each month, at the floating rate equal to the Bank's prime lending rate minus .25%. Commencing October 1, 2011 and on the first day of each month thereafter, monthly interest payments shall be due until June 1, 2014, when all principal and interest will be due in full. Prepayment in whole or in part may be made at anytime without penalty. Payments by the Charter School shall be applied first to interest then to reduction of principal.

## International Leadership Charter School

### Notes to Financial Statements

#### 5. Note Payable (*continued*)

The note payable is secured by an interest in the savings account of the Charter School in the amount of \$250,000, pursuant to the Pledge Agreement entered into by the Charter School and the Bank on May 31, 2011.

Principal payments due by fiscal year are as follows:

2012	\$	-
2013		-
2014		250,000
		<u>\$ 250,000</u>

Interest expense on the promissory note was \$583 for the year ended June 30, 2011.

#### 6. Agreement of Sale

The Charter School entered into a certain agreement of sale (the "Agreement of Sale") dated as of June 2, 2011 with KIMSL 231 Street, LLC (KIMSL), a Delaware limited liability company, wherein KIMSL agreed to sell while the Charter School agreed to purchase a property (as defined in the Agreement of Sale) located in Bronx, New York for a total purchase price of \$2,500,000.

On the execution date, the Charter School made a deposit amounting to \$250,000 to First American Title Insurance Company (the "Escrow Agent"), pursuant to the Agreement of Sale. The Escrow Agent shall continue holding the deposit unless either KIMSL or the Charter School makes a written demand upon the Escrow Agent for the deposit and upon mutual consent by both parties. The deposit shall be credited against the total purchase price at actual conveyance of the title of the property to the Charter School.

#### 7. Commitments

The Charter School entered into a five-year non-cancellable operating lease agreement with an unrelated third party for a facility in the Bronx, New York for its administrative offices and instructional location. The lease will expire on August 15, 2011 and the Charter School has an option to extend the agreement for another five-year period. As of the report date, the Charter School is still in the process of negotiating an eighteen months agreement.

The future minimum lease payments under the lease payable through August 15, 2011 amount to \$71,368.



## **International Leadership Charter School**

### **Notes to Financial Statements**

#### **8. Contingencies**

The charter school is a party to an employment related lawsuit which is covered through their insurance. However the court referred this matter to a local law school as part of their mediation program. The proceeding will be off the record and the law students will use the facts of this proceeding as part of their mediation program.

Certain grants and contracts are subject to audit by funding sources. Such audits may result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have material effect on the accompanying financial statements.

#### **9. Employee Benefit Plan**

The Charter School maintains a deferred compensation plan for all qualified employees. ~~The Charter School elects to make contributions to the plan on a discretionary basis. For~~ the year ended June 30, 2011, the Charter School had not contributed to the plan.

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**International Leadership Charter School**  
**Additional Information**

**International Leadership Charter School**  
**Statement of Financial Position**  
**December 31,**

	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,626,725	\$ 2,235,036
Accounts receivable	\$ 18,528.00	24,961
Prepaid expenses	\$ 934.00	6,622
Security deposits and other assets	152,737	142,737
Property and equipment, net	3,309,037	419,735
	\$ 5,107,961.37	\$ 2,829,091

**LIABILITIES AND NET ASSETS (DEFICIT)**

**Liabilities**

Accounts payable and accrued expenses	\$ 161,628.83	\$ 140,529
Short Term Note Payable	1,850,000.00	
Long Term Loan CapitalOne	1,000,000.00	1,000,000

**Total Liabilities**

	\$ 3,011,628.83	\$ 1,140,529
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**Net Assets (Deficit) - Unrestricted**

	2,096,332.54	1,688,561
	\$ 5,107,961.37	\$ 2,829,091

**International Leadership Charter School**  
Statement of Activities  
Period Ended December 31,

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>						
Public School District -						
State and Local per pupil operating revenue	\$ 2,819,043	\$ -	\$ 2,819,043	\$ 2,989,346	\$ -	\$ 2,989,346
Government Grants and contracts	85,278	-	85,278	22,386	-	22,386
Contributions	1,291	-	1,291	5,350	-	5,350
Other Income	5,557	-	5,557	35,629	-	35,629
<b>Total Revenue and Support</b>	<b>2,911,168</b>	<b>-</b>	<b>2,911,168</b>	<b>3,052,712</b>	<b>-</b>	<b>3,052,712</b>
<b>EXPENSES</b>						
Program services	1,194,885	-	1,194,885	1,655,267	-	1,655,267
General and administrative	775,497	-	775,497	466,870	-	466,870
<b>Total Expenses</b>	<b>1,970,382</b>	<b>-</b>	<b>1,970,382</b>	<b>2,122,137</b>	<b>-</b>	<b>2,122,137</b>
			-			-
Change in Net Assets	940,787	-	940,787	930,575	-	930,575
<b>NET ASSETS (DEFICIT)</b>						
Beginning of year	1,155,546	-	1,155,546	757,987	-	757,987
			-			-
End of Year	<b>\$ 2,096,333</b>	<b>\$ -</b>	<b>\$ 2,096,333</b>	<b>\$ 1,688,561</b>	<b>\$ -</b>	<b>\$ 1,688,561</b>

**International Leadership Charter School**

Statement of Cash Flows

Period Ended December 31,

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 940,787	\$ 930,575
Accounts receivables	91,733	
Accounts payable and accrued expenses	(57,491)	(94,375)
Pre-paid expenses		(3,160)
Net Cash From Operating Activities	<u>975,029</u>	<u>833,040</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets and leasehold improvements	(37,848)	(54,457)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Financing for Land Purchase	<u>(150,000)</u>	<u>750,000</u>
 Net Changes in Cash and Cash Equivalents	 787,181	 1,528,583
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>895,309</u>	<u>706,453</u>
 End of Year	 <u>\$ 1,682,490</u>	 <u>\$ 2,235,036</u>

**APPENDIX D**  
**INTERIM FINANCIAL STATEMENTS**

Legacy Traditional Charter School

Interim Financial Statements as of December 31, 2012 (Unaudited)

<b>Income Statement 12/31/2012</b>	<b>Six months 12/31/12 <u>Queen Creek</u></b>	<b>Six months 12/31/12 <u>Casa Grande</u></b>	<b>Six months 12/31/12 <u>Combined</u></b>
<b>Revenue</b>			
State Funding	2,523,742	2,647,887	5,171,629
Federal Funding	149,481	157,948	307,429
Local Funding	91,440	181,573	273,013
<b>Total Unrestricted Revenues and Gains</b>	<u>2,764,663</u>	<u>2,987,408</u>	<u>5,752,071</u>
<b>Expenses by Function</b>			
Personal Services - Salaries	987,232	1,034,645	2,021,877
Personal Services - Benefits	138,787	147,839	286,626
Purchased Professional Services	486,177	576,705	1,062,882
Purchased Property Services	80,895	93,233	174,129
Other Purchased Services	1,058	18,751	19,809
Supplies	118,970	136,162	255,132
Depreciation & Amortization	140,197	171,406	311,602
Interest Expense	604,096	629,099	1,233,196
Other expenses and losses	13,362	9,408	22,770
<b>Total Expenses</b>	<u>2,570,774</u>	<u>2,817,249</u>	<u>5,388,023</u>
<b>Change in Unrestricted Net Assets/ (Deficit)</b>	193,889	170,159	364,049
<b>Net Assets (Deficit) , Beginning of Year</b>	(846,398)	635,740	(210,658)
<b>Net Assets (Deficit), December 31, 2012</b>	<u>(652,509)</u>	<u>805,899</u>	<u>153,391</u>

**UNAUDITED INTERIM FINANCIAL STATEMENTS OF THE BORROWER**

Legacy Traditional Charter School

Interim Financial Statements as of December 31, 2012 (Unaudited)

Statement of Financial Position	<u>Queen Creek</u>	<u>Casa Grande</u>	<u>Combined</u>
<b>Current Assets</b>			
Cash and Cash Equivalents	4,654	66,099	70,752
Accounts receivable	549,683	587,671	1,137,354
Due from related parties			
Notes receivable -CFE	-	1,136,908	1,136,908
Prepaid expense	-	9,300	9,300
<b>Total Current Assets</b>	<u>554,337</u>	<u>1,799,977</u>	<u>2,354,314</u>
Property and equipment, net	13,716,778	14,791,907	28,508,685
Security Deposit	-	16,170	16,170
<b>Total Assets</b>	<u>14,271,115</u>	<u>16,608,054</u>	<u>30,879,169</u>
<b>Current Liabilities</b>			
Accounts Payable	80,371	135,975	216,346
Accrued Payroll	147,559	145,773	293,332
Notes payable -CFE	110,158	-	110,158
Accrued Interest payable			
Current portion of equipment loan	-	18,767	18,767
<b>Total Current Liabilities</b>	<u>338,088</u>	<u>300,515</u>	<u>638,604</u>
Capital lease obligation	14,463,577	15,398,034	29,861,611
Equipment loan, less current portion	-	37,206	37,206
Prop 301 overpayment liability	121,959	66,399	188,358
<b>Total Liabilities</b>	<u>14,923,624</u>	<u>15,802,155</u>	<u>30,725,779</u>
<b>Net Assets ( Deficit )</b>			
Beginning of Year	(846,398)	635,740	(210,658)
Net Increase or (Decrease)	193,889	170,159	364,049
<b>Total Net Assets ( Deficit )</b>	<u>(652,509)</u>	<u>805,899</u>	<u>153,391</u>
<b>Total Liabilities &amp; Net assets</b>	<u>14,271,115</u>	<u>16,608,054</u>	<u>30,879,169</u>



**Include State Authorizer Report – sourced from Jeffries**

- See APPENDIX E
- Appendix E should include a table describing the authorizer’s portfolio related to applications received, applications approved, revocations, relinquishments, etc.
- 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.

**APPENDIX E**  
**STATE AUTHORIZER REPORT**

**Status Report on Portfolio of Schools Authorized**

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total # of Schools Authorized									
Total # of New Authorization Applications Submitted									
Total # of New Schools Authorized									
% of New Applications Approved									
# of New Applications Denied									
% of New Applications Denied									
# of Total Schools Applying for Renewal									
# of Schools Renewed									
% of Total Schools Renewed									
Renewal									
Term									
% of Renewed Schools Renewed for Less than Full Term									
# of Schools Voluntarily Relinquishing Charter Prior to Renewal Date									
% of Schools Voluntarily Relinquishing Charter Prior to Renewal Date									
renewal cycle)									
# of Charter Revocations (outside of renewal cycle) as % of Total Schools									
Fee, if any charged to schools									



Charter Schools Institute  
*The State University of New York*

## Subsequent Renewal Report

### Icahn Charter School 1

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**January 3, 2011**

Charter Schools Institute  
State University of New York  
41 State Street, Suite 700  
Albany, New York 12207  
518/433-8277  
518/427-6510 (fax)  
[www.newyorkcharters.org](http://www.newyorkcharters.org)

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The final version of Institute renewal reports should be broadly shared by the school with the entire school community. The reports will be posted on the Institute’s website at: [www.newyorkcharters.org/pubsReportsRenewals.htm](http://www.newyorkcharters.org/pubsReportsRenewals.htm).

## **REPORT INTRODUCTION**

This report is the primary means by which the Charter Schools Institute (the “Institute”) transmits to the Board of Trustees of the State University of New York (the “SUNY Trustees”) its findings and recommendations regarding a school’s Application for Renewal, and more broadly, details the merits of a school’s case for renewal. This report has been created and issued pursuant to the *Practices, Policies and Procedures for the Renewal of Charter Schools Authorized by the State University Board of Trustees* (the “SUNY Renewal Practices”).<sup>1</sup>

Information about the SUNY renewal process and an overview of the requirements for renewal under the New York Charter Schools Act of 1998 (as amended, the “Act”) are available on the Institute’s website at: [www.newyorkcharters.org/schoolsRenewOverview.htm](http://www.newyorkcharters.org/schoolsRenewOverview.htm).

## **RECOMMENDATION AND EXECUTIVE SUMMARY**

### **Recommendation**

### **Full-Term Renewal**

The Institute recommends that the State University Trustees approve the Application for Subsequent Renewal of the Icahn Charter School 1 and renew its charter for a period of five years with authority to provide instruction to students in Kindergarten through 8<sup>th</sup> grade with a maximum enrollment of 324 students, and consistent with the other terms set forth in its Application for Subsequent Renewal.

The Institute further recommends that the SUNY Trustees continue to allow the waiver of the Trustees’ 40 percent rule, which is a charter provision that prohibits more than 40 percent of a charter school board from being affiliated with any single entity, in this case, the not-for-profit Foundation for a Greater Opportunity.

### **Background and Required Findings**

According to the SUNY Renewal Practices:

*In subsequent renewal reviews, and in contrast to initial renewal reviews, the State University Trustees evaluate the strength and effectiveness of a school’s academic program almost exclusively by the degree to which the school has succeeded in meeting its academic Accountability Plan goals during the Accountability Period. This approach is consistent with the greater time that a school has been in operation and a concomitant increase in the quantity and quality of student achievement data that the school has generated. It is also consistent with the Act’s purpose of moving from a rules-based to an outcome-based system of accountability in which schools are held accountable for meeting measurable student achievement results.*

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<sup>1</sup> The *Practices, Policies and Procedures for the Renewal of Charter Schools Authorized by the State University Board of Trustees* (revised September 15, 2009) are <http://www.newyorkcharters.org/documents/renewalPractices.doc>.

Icahn Charter School 1 (“Icahn Charter School”) has applied for a subsequent, Full-Term Renewal of five years. In its tenth year of operation, and having previously been awarded a Full-Term Renewal, the SUNY Renewal Practices provide only two possible renewal outcomes for Icahn Charter School: Full-Term Renewal or Non-Renewal. In order to earn a Full-Term Renewal, Icahn Charter School must demonstrate that it has met the criteria for such a renewal as described in the SUNY Renewal Practices. Specifically, the school must demonstrate that it, “has met or come close to meeting its academic Accountability Plan goals during the Accountability Period,” or it must face non-renewal. Based on the Institute’s review of the evidence that it gathered and that Icahn Charter School has provided including, but not limited to, the school’s Application for Renewal, evaluation visits conducted during the charter period, a renewal evaluation visit conducted during the final year of the charter period, and the school’s record of academic performance as determined by the extent to which it has met its academic Accountability Plan goals, the Institute finds that the school has “met or come close to meeting its academic Accountability Plan goals during the Accountability Period.”<sup>2</sup>

Based on all the evidence submitted, the Institute makes the following findings required by the Act. The Icahn Charter School 1, as described in its Application for Subsequent Renewal, meets the requirements of the Act and all other applicable laws, rules and regulations. The school has demonstrated the ability to operate in an educationally and fiscally sound manner in the next charter period. Finally, given the programs it will offer, its structure and its purpose, approving the school to operate for another five years is likely to improve student learning and achievement and materially further the purposes set out in Education Law subdivision 2850(2).

Therefore, in accordance with the standard for Subsequent Renewal found in the SUNY Renewal Practices, the Institute recommends that the SUNY Trustees approve the Icahn Charter School’s Application for Charter Renewal and renew the charter for a full-term of five years.

### **Consideration of School District Comments**

In accordance with the Act, the Institute notified the school district in which the charter school is located regarding the school’s application for renewal. As of the date of this report, no comments were received from the district in response.

### **Summary Discussion**

#### *Academic Success*

Icahn Charter School has consistently met its key Accountability Plan goals of English language arts and mathematics, meeting all measures for both goals each year, with the exception of the respective growth measures, which are unlikely to be met because of the large proportion of students scoring at the proficient level. In addition, the school has consistently met its science and social studies goals during the Accountability Period. According to the state’s No Child Left Behind (“NCLB”) accountability system, the school is deemed to be in good standing.

Based on an evaluation of the five measures in its Accountability Plan, the school has consistently met its English language arts goal throughout the Accountability Period. The school exceeded the 75 percent target for absolute proficiency every year during the Accountability Period and showed steady improvement. The school has consistently exceeded the Annual Measurable Objective

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<sup>2</sup> SUNY Renewal Practices, Full-Term Renewal standard (9).

(AMO) set by the state and outperformed its local community school district every year. In comparison to demographically similar schools state-wide, the school has performed better than expected and met its target each year. The school has also shown overall year-to-year cohort growth in the two previous years, but with a slight decline in the most recent year.

Icahn Charter School has met its mathematics goal throughout the Accountability Period, consistently exceeding the absolute target by a wide margin. The school has exceeded the AMO and outperformed its local community school district by a wide margin each year. In comparison to demographically similar schools state-wide, the school has performed better than expected each year, and consistently met its target. With respect to year-to-year student growth, the school as a whole exceeded its cohort growth target in the most recent year.

The school has a system to gather assessment and evaluation data and uses it to improve instructional effectiveness and student learning. Icahn Charter School regularly administers useful diagnostic, formative and summative assessments that are aligned to its curriculum. Further, the school effectively uses assessment results to improve student performance through the adjustment of classroom instruction as well as to identify students for remediation and enrichment. A wide variety of communication methods have been implemented to inform parents and the overall school community about individual student and overall school performance.

The school has a clearly defined curriculum and has effectively used it throughout the charter period to prepare students to meet state performance standards. Icahn Charter School's comprehensive curriculum, based on E.D. Hirsch's Core Knowledge, is aligned to state learning standards and performance indicators. Teachers at the school are sufficiently supported in what to teach and when to teach it, including having access to a robust amount of instructional materials to use as they implement their lessons.

Icahn Charter School offers a wide array of supports for its teachers, provided by members of the leadership team and external consultants. Instructional leaders have also established and maintained an environment of very high expectations for student achievement and teacher performance. Notably, a professional culture focused on student outcomes has been evident across the school, including school leadership, the school board, instructional staff, and the Icahn network. These efforts resulted in quality instruction being observed throughout the school at the time of the renewal inspection visit.

Throughout Icahn Charter School's existence, including the current charter period, the school has effectively implemented a data-driven Targeted Assistance Program that is demonstrably effective in helping students who are struggling academically. While Icahn Charter School enrolls a low percentage of students with disabilities and English language learners, it has clear procedures in place for identifying these student populations and meeting their needs.

Icahn Charter School has continued to maintain an exceptionally safe and orderly environment where learning is valued, promoted, and clearly evident. At the time of the renewal inspection visit, teachers implemented a variety of effective classroom management techniques with routines and procedures that allow them to successfully deliver lessons. A school-wide discipline system has been in place and consistently applied. The school has experienced an extremely low number of student suspensions.



The school's professional development program assists teachers in meeting student academic needs and school goals by addressing overall instructional priorities as well as general shortcomings in teachers' pedagogical skills and content knowledge. The professional development program provides teachers with a variety of options that address both areas of interest as well as deficiencies identified by school leaders.

### *Organizational Effectiveness and Viability*

Icahn Charter School has been faithful to its mission and has implemented the key design elements contained in its renewal charter in pursuit of that mission, including focusing on the Core Knowledge curriculum and providing academic support through the Targeted Assistance Program. The school has also employed a director of assessment to manage the school's overall student assessment program and provide teachers with related support, as well as a staff developer to assist teachers in improving their instructional practices.

Based on limited data, families appear to be satisfied with the school. The school utilizes an annual parent satisfaction survey as a key method to ensure strong parental input and collaboration. A survey response rate above 90 percent has been reported by the school for each year of the current charter period. In 2009-10, 94 percent of respondents rated the school as either "excellent" or "good" on each of the 15 items included in the survey. In addition, the school has experienced a very high student retention rate, also demonstrating that parents are satisfied with the school such that they consistently re-enroll their child.

Icahn Charter School has established a well-functioning organizational structure with staff, systems, and procedures that allow the school to carry out its academic program. Day-to-day operations are competently managed by a mixture of school and network staff; the priorities of the school's leadership are clearly aligned to the school's mission and Accountability Plan goals. The school's organizational structure supports distinct lines of accountability with clearly defined roles and responsibilities. In addition, the school has been successful in attracting, and in particular retaining, a significant number of quality personnel throughout the school.

The Icahn Charter School board of trustees has worked effectively to oversee the educational program and achieve the school's mission. The composition of the board, which also serves as the board for Icahn Charter Schools 2, 3, 4 and 5 (all authorized by the SUNY Trustees), includes individuals with a diverse set of skills. The board believes that it is well represented in critical areas including management, business, education, real estate and financial expertise, and as such, they have no current plans to increase the board's membership. At the time the school was granted an Initial Full-Term Renewal, it was granted a waiver such that more than 40 percent of the school's board may be affiliated with the Foundation for a Greater Opportunity, an organization that, *inter alia*, helps provide facilities for charter and district schools. The affiliation has not caused any undue conflicts and those that do exist are handled appropriately. The board has visited the school on multiple occasions and they receive detailed reports from the school leader and superintendent on student achievement, legal compliance, and fiscal accountability.

The school board holds school leaders and the superintendent of the Icahn charter school network accountable for measurable student performance results. The board conducts annual evaluations of the school's principal with the assistance and guidance from the superintendent. The school board receives regular reports at each board meeting from school leaders on academic performance, finance, staff updates, enrollment, discipline issues, and any other areas of concern. In the future, the

school board seeks to formalize its succession planning in the event that there is leadership turnover at the school or superintendent level. The school board has generally abided by its by-laws and has held its meetings in accordance with the Open Meetings Law.

The board of trustees has generally avoided creating conflicts of interest, and where conflicts exist, the board has managed those conflicts in a clear and transparent manner through recusal. In most material respects, the school board has implemented adequate policies and procedures to ensure the effective governance and oversight of the school. At the time of the renewal visit, some school policies had not yet been formalized, but due to the school's small size, it has been able to respond to issues as they arise in a manner that is consistent with its charter and all applicable laws and regulations. While the school has adopted a comprehensive complaint policy, there have been no formal complaints brought to the board during the charter period.

Based on the evidence available at the time of the renewal inspection visit and throughout the current charter term, in most material respect, with minor exceptions Icahn Charter School has been in general and substantial compliance with the terms of its charter, bylaws, applicable state and federal law, rules and regulations throughout the term of its charter. The school's bylaws and code of ethics need to incorporate additional language as required by the recent amendments to the Charter Schools Act which will occur through a request for amendment process. The school board has also made appropriate use of outside legal counsel as needed.

#### *Fiscal Soundness*

Icahn Charter School has operated pursuant to a long-range financial plan over the course of the charter period that has included the development of realistic budgets that are monitored and adjusted when appropriate. Budget variances are routinely analyzed by both the Icahn charter schools' superintendent and school-based personnel and discussed with the principal and school board on a regular basis or when necessary. The school has consistently taken a strategic look at spending trends and staffing needs in the development of the school's budget(s). In addition, actual expenses have been equal to or less than actual revenue.

The school has established written fiscal policies, procedures and controls related to external and internal compliance for cash disbursements, cash receipts, bank reconciliations, payroll, fixed assets, grants/contributions, and the preparation of financial statements. Transactions have been accurately recorded and appropriately documented in accordance with leadership's direction. The school's Fiscal Year (FY) 2009-10 audit report of internal controls—related to financial reporting and compliance with laws, regulations and grants—disclosed no material weaknesses, or instances of non-compliance. The lack of other deficiencies in the reports provides some, but not absolute, assurance that the school has maintained adequate internal controls and procedures.

The school has complied with financial reporting requirements during the charter period. Budget, quarterly and annual financial statement audit reports were filed in a timely, accurate and complete manner. Each of the school's annual financial audits indicate that the reports were conducted in accordance with generally accepted accounting principles and received an unqualified opinion, indicating that, in the auditor's opinion, the school's financial statements and notes fairly represent, in all material respects, the school's financial position, changes in net assets, and cash flows. The school board reviews and approves various monthly and quarterly reports along with the annual financial audit report.

The school has maintained adequate financial resources to ensure stable operations and has monitored and successfully managed cash flow. The school completed the FY 2009-10 school year in stable financial condition slightly increasing the school's cash reserves while maintaining total net assets, most of which are attributed to the facility the school owns.

As illustrated by the school's Fiscal Dashboard, which appears as an appendix to this report,<sup>3</sup> Icahn Charter School has averaged a "fiscally strong" financial-responsibility-composite-score over the current charter term indicating a consistent level of fiscal stability. The composite score assists in measuring the financial health of a school using a blended score that measures the school's performances on key financial indicators which allows a school's sources of financial strength to offset areas of financial weakness. In addition, the school has averaged a "medium risk/good" working-capital-ratio which indicates it has generally had enough short term assets to cover immediate liabilities/short-term debt. Further, the school has averaged a "low risk/excellent" rating debt-to-asset ratio, primarily a result of the school maintaining no short or long term debt. The school has also averaged a "medium risk/good" months-of-cash ratio, demonstrating it has had more than the suggested three months of annual expenses in reserves. The school has no major investments and all cash is left in savings and/or money market accounts to ensure the school has sufficient cash available to pay current bills and other payables that are shortly due.

The school has averaged 87 percent of all expenses being allocated to educational program services over the current charter term. The school also saw revenue exceed expenses per student every year over the charter period, indicating the school has followed through with an effective operational plan on a year-to-year basis.

Based on all of the foregoing the school has demonstrated fiscal soundness over the course of its charter term.

#### *Plans for the Next Charter Period*

The school has provided all of the key structural elements for a renewal charter and they are deemed to be reasonable, feasible and achievable. The school would maintain its current mission statement for the term of the renewal charter as follows:

*Icahn Charter School I, using the Core Knowledge curriculum developed by E.D. Hirsch, will provide its students with a rigorous academic program offered in an extended day/year setting. Students will graduate armed with the skills and knowledge to participate successfully in the most rigorous academic environments, and will have a sense of personal and community responsibility.*

The school would continue providing instruction to students in kindergarten through 8<sup>th</sup> grade. Projected enrollment in each of the five years within the proposed charter period would be 324 students and the school would offer 192 days of instruction each year. The school day would last from 8:30 a.m. to 4:00 p.m.

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<sup>3</sup> The Institute's Fiscal Dashboard, which provides a detailed financial analysis of each school authorized by the SUNY Trustees, is available at: <http://www.newyorkcharters.org/FiscalDashboard.htm>. A memo explaining the metrics used within the dashboard is also available at that web address.

The school does not propose to make significant changes to its educational program and would continue to enhance programs already in place. Proposed key design elements for the next charter period would include the following: continued implementation of the Core Knowledge curriculum; intensive targeted intervention programs for struggling students; enrichment programs, including extended school day and summer camp; strong school culture; parental involvement; commitment to serving students with disabilities; fiscal stability; collection and systematic use of student performance data; and extensive professional development for staff.

The school would maintain its current organizational structure that places the principal as the chief school official, assisted by a cadre of secondary leaders, including a director of operations, staff developer, and director of assessment. Members of the current board of trustees expressed an interest to continue their service to the school, as well as providing oversight of Icahn Charter Schools 2, 3, 4, and 5. The school board would maintain its existing committee structure to carry out its responsibilities. In addition, the school board would maintain its institutional partnership with the Foundation for a Greater Opportunity. Finally, the school intends on remaining in its current facility, the elementary program located at 1525 Brook Avenue and the middle school program located 1506 Brook Avenue in the Bronx.

Icahn Charter School has presented a reasonable and appropriate fiscal plan for the term of the next charter that is likely achievable. The school has taken a strong strategic and conservative approach in budgeting and planning for the next charter period. Due to state deficit problems, and the uncertainty of per-pupil funding, the school has developed a working budget that uses the 2009-10 funding levels as a starting point increasing each year by two percent. The plan projects a minor operating and cash flow surplus in each year, contingent on the school continuing to meet enrollment goals which it has demonstrated the ability to meet. These surpluses will further strengthen the school's fiscal stability. Long-range fiscal projections are more susceptible to error than those for a single year. Such projections are subject to revision due to changes in local conditions, objectives, laws and state funding. The school will be required to continually develop and adopt annual budgets based on known per pupil amounts for the districts from which it draws enrollment.

It should be noted that the 2010-11 per-pupil rate for the school's primary district, New York City, is 8.7 percent higher than the 2009-10 rate. The school has chosen to use the 2009-10 per pupil amount as a starting point for budgeting purposes due to the uncertainty about whether or not the 2010-11 per pupil rate will stand or be reduced. Using the 2009-10 rate, the school has already demonstrated projected surpluses during the next charter term and if the 2010-11 rate remains it will only strengthen the school fiscally. Using this conservative method while budgeting will help the school generate additional revenue and continue to remain fiscally stable.

To the extent that Icahn Charter School has achieved its key academic goals, continues to implement an educational program that supports achieving those goals, operates an effective and viable organization, and is fiscally sound, its plans to continue to implement the educational program as proposed during the next charter period are reasonable, feasible and achievable.

## SCHOOL OVERVIEW

### Opening Information

Date Initial Charter Approved by SUNY Trustees	January 2001
Date Initial Charter Approved by Board of Regents	March 2001
School Opening Date	September 2001

### Location

School Year(s)	Location(s)	Grades	District
2001- 02 to Present	1525 Brook Ave., Bronx, NY 10437	K-4	NYC CSD 9
2008- 09 to Present	1506 Brook Ave., Bronx, NY 10437	5-8	NYC CSD 9

### Partner Organizations

	Partner Name	Partner Type	Dates of Service
Current	The Foundation for a Greater Opportunity	Non-Profit	2001 - Present

### Current Mission Statement

Icahn Charter School 1, using the Core Knowledge curriculum developed by E. D. Hirsch, will provide its students with a rigorous academic program offered in an extended day/year setting. Students will graduate armed with the skills and knowledge to participate successfully in the most rigorous academic environments, and will have a sense of personal and community responsibility.

### Current Key Design Elements

<ul style="list-style-type: none"> <li>• Curriculum based on the Core Knowledge Sequence.</li> </ul>
<ul style="list-style-type: none"> <li>• A robust remediation program including a Saturday Academy, and after school program, targeted assistance for students at-risk of academic failure, and a mentor program.</li> </ul>
<ul style="list-style-type: none"> <li>• Enrichment opportunities including an extended school day and summer camp.</li> </ul>
<ul style="list-style-type: none"> <li>• A school culture focused on the enjoyment of hard work, the promotion of good character and respect for learning.</li> </ul>
<ul style="list-style-type: none"> <li>• Encouraging parental involvement through a parent teacher association and the placement of one parent on the school board, as well as strongly encouraging parents to enter into a contract with the school each year.</li> </ul>
<ul style="list-style-type: none"> <li>• A commitment to providing the bulk of special education and related services to our students at our school facility.</li> </ul>
<ul style="list-style-type: none"> <li>• A commitment to fiscal stability through budgeting conservatively and provide a surplus year after year.</li> </ul>
<ul style="list-style-type: none"> <li>• Effectively using data by employing a Director of Assessment, who collects and organizes student performance data, and facilitates its use in instructional decision making among teachers</li> </ul>
<ul style="list-style-type: none"> <li>• A robust professional development system including a full time staff developer, who works with staff members and the Director of Assessment to ensure that support for high student performance is maximized and a relationship with the Institute for Literacy Studies and Mathematics Studies at Lehman College.</li> </ul>

## School Characteristics

School Year	Original Chartered Enrollment	Revised Charter Enrollment	Actual Enrollment <sup>4</sup>	Original Chartered Grades	Actual Grades	Days of Instruction
2001-02	108	108	105	K-2	K-2	209
2002-03	144	144	143	K-3	K-3	209
2003-04	180	180	180	K-4	K-4	192
2004-05	180	216	216	K-4	K-5	190
2005-06	180	252	252	K-4	K-6	189
2006-07	288	N/A	280	K-7	K-7	192
2007-08	324	N/A	317	K-8	K-8	188
2008-09	324	N/A	314	K-8	K-8	190
2009-10	324	N/A	328	K-8	K-8	190
2010-11	324	N/A	338	K-8	K-8	188

## Student Demographics

	2007-08 <sup>5</sup>		2008-09 <sup>6</sup>		2009-10	
	Percent of School Enrollment	Percent of NYCSD 9 Enrollment	Percent of School Enrollment	Percent of NYCSD 9 Enrollment	Percent of School Enrollment <sup>7</sup>	Percent of NYCSD 9 Enrollment <sup>8</sup>
<b>Race/Ethnicity</b>						
American Indian or Alaska Native	0	1	0	0	0	N/A
Black or African American	58	34	53	34	53	N/A
Hispanic	42	63	47	64	45	N/A
Asian, Native Hawaiian, or Pacific Islander	0	2	0	1	0	N/A
White	0	1	0	1	1	N/A
Multiracial	0	N/A	0	0	1	N/A
<b>Special Populations</b>						
Students with Disabilities <sup>9</sup>	4.8	N/A	5	N/A	5.4	N/A
Limited English Proficient	1	24	3	24	4	N/A
<b>Free/Reduced Lunch</b>						
Eligible for Free Lunch	67	82	64	83	72	N/A
Eligible for Reduced-Price Lunch	19	7	16	6	N/A	N/A

<sup>4</sup> Source: SUNY Charter School Institute's Official Enrollment Binder. (Figures may differ slightly from New York State Report Cards, depending on date of data collection.)

<sup>5</sup> Source: 2007-08 School Report Cards, New York State Education Department.

<sup>6</sup> Source: 2008-09 School Report Cards, New York State Education Department.

<sup>7</sup> Source: 2009-10 demographic and Limited English Proficient percentages based on BEDS reports submitted at the beginning of the school year. Percent Eligible for Free Lunch is based on schools' BEDS data as reported by SED; percent Eligible for Reduced Price Lunch provided by the school.

<sup>8</sup> Aggregated district data not yet available for 2009-10.

<sup>9</sup> New York State Education Department does not report special education data. School data is school-reported from charter renewal applications. District data from NYSED Special Education School District Data Profile.

**Current Board of Trustees<sup>10</sup>**

<b>Board Member Name</b>	<b>Position/Committees</b>
Carl C. Icahn	Chairman
Gail Golden	President
Julie Goodyear	Secretary
Seymour Fliegel	Member
Karen Mandelbaum	Member
Robert Sancho	Member
Edward J. Shanahan	Member
Robin Williams	Parent – Guardian Association President

**School Leader(s)**

<b>School Year</b>	<b>School Leader(s) Name and Title</b>
2001-02 to 2006-07	Jeffrey Litt, Principal/Daniel Garcia, Principal (October 2007)
2007-08 to Present	Daniel Garcia, Principal

**School Visit History**

<b>School Year</b>	<b>Visit Type</b>	<b>Evaluator (Institute/External)</b>	<b>Date</b>
2001-02	First Year	Institute	May 29, 2002
2002-03	Second Year	Institute	May 19, 2003
2003-04	Third Year	External	February 24-25, 2004
2004-05	None	N/A	N/A
2005-06	Initial Renewal	Institute	September 27-28, 2005
2006-07	None	N/A	N/A
2007-08	None	N/A	N/A
2008-09	Eighth Year	Institute	April 23, 2009
2010-11	Subsequent Renewal	Institute	October 28, 2010

<sup>10</sup> Source: School renewal application and Institute board information.

## ACADEMIC ATTAINMENT AND IMPROVEMENT

### Background

At the beginning of the charter period the school developed and adopted an Accountability Plan that set academic goals in the key subjects of English language arts and mathematics, as well as science and social studies. The plan also included an NCLB goal. For each goal in the Accountability Plan specific outcome measures define the level of performance necessary to meet that goal. Furthermore, the Institute has established a set of required outcome measures that include the following three types: 1) the absolute level of student performance on state examinations; 2) the comparative level of student performance on state examinations; and 3) the growth in student learning according to year-to-year comparisons of grade level cohorts. The following table shows the outcome measures currently required by the Institute in each subject area goal, as well as for the NCLB goal. Schools may have also elected to include additional optional goals and measures in their Accountability Plan.

<b>Summary of Required Goals and Outcome Measures in Elementary/Middle School (K-8) Accountability Plans</b>					
<b>GOAL</b>	<b>Required Outcome Measures</b>				
	<b>Absolute<sup>11</sup></b>		<b>Comparative</b>		<b>Growth<sup>1</sup></b>
	75 percent at or above Level 3 on state exam	Performance Index (PI) meets Annual Measurable Objective (AMO)	Percent proficient greater than that of local school district	School exceeds predicted level of performance compared to similar public schools by small Effect Size	Grade-level cohorts reduce by half the gap between prior year's percent at or above Level 3 and 75 percent
<b>English Language Arts</b>	◆	◆	◆	◆	◆
<b>Mathematics</b>	◆	◆	◆	◆	◆
<b>Science</b>	◆		◆		
<b>Social Studies</b>	◆		◆		
<b>NCLB</b>	School is deemed in "Good Standing" under state's NCLB accountability system				

The most important criterion for renewal is academic success, which is demonstrated in large part by meeting or coming close to meeting the goals in a school's Accountability Plan. The Institute determines the outcome of a goal by evaluating the multiple measures associated with that goal.

<sup>11</sup> Note: In 2009-10, the State Education Department (SED) raised its achievement standard, by increasing the scaled score cut off for proficiency or Level 3 performance on the English language arts and mathematics exams. In order to maintain a consistent standard for determining meeting the absolute and growth measures, the Institute asked schools to report 2009-10 results on these measures using a 650 scaled score cut-off, as SED had used a 650 cut-off in the previous few years.

SED has itself refined the cut score for its own NCLB accountability system. While following the same principle of maintaining year-to-year consistency in cut scores, the state has also taken into account when the two exams were administered in 2010 compared to previous years. As the exams were administered later in the year, students had more learning opportunities prior to the exam. As such, SED set the cut scores slightly higher than 650 in each grade. For the purpose of evaluating the goals' three absolute and growth measures, the Institute has adapted SED's "time-adjusted" cut-offs.

In the presentation of English language arts and mathematics results below, we use the 'time-adjusted' cut-offs for 2009-10 and include in a footnote what the results would have been using the 650 cut-off.



The following presentation indicates the outcome of each of the school’s goals, as well as an analysis of the respective measures for each goal during the Accountability Period.<sup>12</sup> Italicized text indicates goals or measures as written in the school’s Accountability Plan; bold numbers appearing in the tables are the critical values for determining if a measure was achieved in a given year. Aside from required Accountability Plan measures, the following also presents the results of optional measures that the school may have included in its plan.

**English Language Arts**

**Accountability Plan Goal:** All students at Icahn Charter School will become proficient readers of the English language.

**Outcome:** Icahn Charter School has met its English language arts goal.

**Analysis of Accountability Plan Measures:**

<b>Absolute Measure:</b> <i>By the 2009-10 school year, 75% of Icahn 1 Charter School students who have been enrolled at the school for at least two years will score at or above a Level 3<sup>13</sup> on the New York State English Language Arts assessment.</i>				
<b>Results (in percents)</b>				
	<b>School Year</b>			
<b>Grade</b>	<b>2006-07</b> (Tested: 149)	<b>2007-08</b> (Tested: 192)	<b>2008-09</b> (Tested: 190)	<b>2009-10<sup>14</sup></b> (Tested: 198)
<b>3</b>	80.6	84.8	93.5	90.9
<b>4</b>	90.9	89.2	88.6	96.9
<b>5</b>	78.6	100.0	100.0	94.1
<b>6</b>	88.5	87.1	100.0	97.2
<b>7</b>	74.2	92.9	100.0	97.1
<b>8</b>	-	57.1	79.3	82.1
<b>All</b>	82.6	84.4	<b>93.7</b>	<b>93.4</b>

Icahn Charter School has consistently exceeded the absolute performance target of 75 percent of students performing at or above Level 3 on the state’s English language arts exam during the Accountability Period. In 2009-10 it met the absolute measure using the historical proficiency scale score equivalent of 650, as well as the State’s determined time adjusted cut scores which are slightly higher.

<b>Absolute Measure:</b> <i>Each year, the school’s aggregate Performance Index on the State ELA exam will meet its Annual Measurable Objective set forth in the State’s No Child Left Behind (NCLB) accountability system.</i>				
<b>Results (in percents)</b>				
	<b>School Year</b>			
<b>Index</b>	<b>2006-07</b> (Tested: 168)	<b>2007-08</b> (Tested: 202)	<b>2008-09</b> (Tested: 200)	<b>2009-10</b> (Tested: 215)
<b>PI</b>	<b>181</b>	<b>185</b>	<b>200</b>	<b>193</b>
<b>AMO</b>	<b>122</b>	<b>133</b>	<b>144</b>	<b>155</b>

<sup>12</sup> Because the renewal decision is made in the last year of a Charter Period, the Accountability Period ends in the next to last year of the Charter Period. For initial renewals, the Accountability Period is the first four years of the Charter Period. For subsequent renewals, the Accountability Period includes the last year of the previous Charter Period through the next to last year of the current Charter Period.

<sup>13</sup> In 2009-10, this is based upon the state determined “time adjusted cut scores” instead of Level 3 cut scores as in previous years.

<sup>14</sup> If using the 650 scale score cutoff as used in previous years, 96.1% of Icahn 1 students would be considered proficient in English Language Arts in 2009-10.

Icahn Charter School has surpassed the English language arts Annual Measurable Objective (AMO) established by the state’s NCLB accountability system during each year of its Accountability Period. The school’s Performance Index increased each year from 2006-07 to 2008-09, with only a slight decrease in 2009-10 as a result of the raised standards.

<b>Comparative Measure:</b> <i>Each year, the percent of students who are enrolled in at least their second year and performing at or above Level 3 on the State ELA exam in each tested grade will be greater than that of their peers in New York City CSD 9.</i>				
<b>Results (in percents)</b>				
	<b>School Year</b>			
<b>Comparison</b>	<b>2006-07</b> (Grade 3-7)	<b>2007-08</b> (Grades 3-8)	<b>2008-09</b> (Grades 3-8)	<b>2009-10</b> (Grades 3-8)
<b>School</b>	<b>82.6</b>	<b>84.4</b>	<b>93.7</b>	<b>62.6</b>
<b>District</b>	<b>35.9</b>	<b>38.5</b>	<b>52.2</b>	<b>25.4</b>

Icahn Charter School has consistently outperformed its local school district on the state’s English Language Arts exam and widened the gap in performance in recent years. In the most recent year, the school outperformed the local school district by over 35 percentage points.

<b>Comparative Measure:</b> <i>Each year, the school will exceed its expected level of performance on the State ELA exam by at least a small Effect Size (performing higher than expected to small degree) according to a regression analysis controlling for students eligible for free lunch among all public schools in New York State.</i>				
<b>Results (in percents)</b>				
	<b>School Year</b>			
<b>Index</b>	<b>2006-07</b> (Grade 3-7) (Tested: 168)	<b>2007-08</b> (Grades 3-8) (Tested: 202)	<b>2008-09</b> (Grades 3-8) (Tested: 200)	<b>2009-10</b> (Grades 3-8) (Tested: 215)
<b>Predicted</b>	44.1	56.0	72.3	37.1
<b>Actual</b>	80.8	85.2	94.0	62.3
<b>Effect Size</b>	<b>2.39</b>	<b>2.00</b>	<b>2.24</b>	<b>1.64</b>

In comparison to demographically similar school statewide, Icahn Charter School has exceeded its predicted performance. The school has exceeded its effect size target to a large degree every year during the Accountability Period.

<b>Growth Measure:</b> <i>Each year, each grade-level cohort of students will reduce by one-half the gap between the percent at or above Level 3 on the previous year’s State English Language exam and 75 percent at or above Level 3<sup>15</sup> on the current year’s State English language arts exam. If a grade-level cohort exceeds 75 percent at or above Level 3 in the previous year, the cohort is expected to show at least some increase in the current year</i>				
<b>Results (in percents)</b>				
	<b>School Year</b>			
<b>Percent Level 3 &amp; 4</b>	<b>2006-07</b> (Grades 4-7) (N= 122)	<b>2007-08</b> (Grades 4-8) (N= 161)	<b>2008-09</b> (Grade 4-8) (N= 157)	<b>2009-10<sup>16</sup></b> (Grade 4-8) (N= 165)
Baseline	83.6	81.4	91.7	97.0
Target	83.7	81.5	91.8	91.1
Actual	83.6	84.5	93.6	93.9
Cohorts Made Target	<b>(2 of 4)</b>	<b>(4 of 5)</b>	<b>(4 of 5)</b>	<b>(1 of 5)</b>

<sup>15</sup> 2009-10 results are based on the state determined “time adjusted cut score” instead of Level 3 cut scores as in previous years.

<sup>16</sup> If using the 650 scale score cutoff as used in previous years, three out of five cohorts would have achieved the requisite gains.

Icahn Charter School showed overall growth the two previous years, with four of five cohorts meeting their individual targets. School performance overall declined in the most recent year with only one of five cohorts meeting its individual growth target.

**Optional Measures:**

Each year, the percent of students performing at or above Level 3 on the State ELA exam in each tested grade will be greater than that of the following similar schools: CS: 4, 42,55, MS 313,339						
<b>2009-2010 NYS ELA Percent Level 3 or Higher By All Students*</b>						
School	CS 4	CS 42	CS 55	MS 313	MS 339	<b>ICAHN CHARTER SCHOOL 1</b>
Grade 3	32.5	23.3	15.0			72
Grade 4	33.3	47.9	20.2			61
Grade 5	18.2	27.6	18.9			50
Grade 6	8.7			20.0	14.4	61
Grade 7	17.2			9.4	14.7	100
Grade 8	47.5			29.8	12.6	79
Total	26.2	32.9	18.0	19.7	13.9	71

Icahn 1 met its optional comparative measure, outperformance all comparison school by a minimum of 28 percentage points.

**Mathematics**

**Accountability Plan Goal:** All Icahn Charter School students will demonstrate steady progress in the understanding and application of mathematical skills and concepts.

**Outcome:** Icahn Charter School has met its mathematics goal.

**Analysis of Accountability Plan Measures:**

<b>Absolute Measure:</b> <i>By the 2009-10 school year, 75% of Icahn 1 Charter School students who have been enrolled at the school for at least two years will score at or above a Level 3<sup>17</sup> on the New York State Mathematics assessment.</i>				
<b>Results (in percents)</b>				
	<b>School Year</b>			
<b>Grade</b>	<b>2006-07</b> (Tested: 148)	<b>2007-08</b> (Tested: 192)	<b>2008-09</b> (Tested: 189)	<b>2009-10<sup>18</sup></b> (Tested: 199)
<b>3</b>	100.0	100.0	100.0	100.0
<b>4</b>	93.9	97.3	94.1	100.0
<b>5</b>	100.0	100.0	100.0	100.0
<b>6</b>	100.0	100.0	100.0	97.3
<b>7</b>	96.8	100.0	100.0	100.0
<b>8</b>	-	88.6	100.0	100.0
<b>All</b>	<b>98.0</b>	<b>97.4</b>	<b>98.9</b>	<b>99.5</b>

<sup>17</sup> In 2009-10, this is based upon the State’s determined “time adjusted cut scores” instead of Level 3 cut scores as in previous years.

<sup>18</sup> If using the 650 scale score cutoff as used in previous years, 100% of Icahn 1 students would be considered proficient in mathematics in 2009-10.

Icahn Charter School has consistently exceeded the absolute performance target of 75 percent of students performing at or above Level 3 on the state’s mathematics exam by a wide margin during the Accountability Period. In 2009-10 the school met the absolute measure using the historical proficiency scale score equivalent of 650, as well as the state determined time adjusted cut scores which are slightly higher.

<b>Absolute Measure:</b> <i>Each year, the school’s aggregate Performance Index on the State Mathematics exam will meet its Annual Measurable Objective set forth in the State’s No Child Left Behind (NCLB) accountability system.</i>				
<b>Results (in percents)</b>				
	<b>School Year</b>			
<b>Index</b>	<b>2006-07</b> (Tested: 167)	<b>2007-08</b> (Tested: 206)	<b>2008-08</b> (Tested: 199)	<b>2009-10</b> (Tested: 21)
<b>PI</b>	<b>198</b>	<b>198</b>	<b>199</b>	<b>199</b>
<b>AMO</b>	<b>86</b>	<b>102</b>	<b>119</b>	<b>119</b>

Icahn Charter School has surpassed the mathematics Annual Measurable Objective (AMO) established by the state’s NCLB accountability system during each year of its Accountability Period.

<b>Comparative Measure:</b> <i>Each year, the percent of students who are enrolled in at least their second year and performing at or above Level 3 on the State Mathematics exam in each tested grade will be greater than that of their peers in New York City CSD 9.</i>				
<b>Results (in percents)</b>				
	<b>School Year</b>			
<b>Comparison</b>	<b>2006-07</b> (Grades 3-7)	<b>2007-08</b> (Grades 3-8)	<b>2008-09</b> (Grades 3-8)	<b>2009-10</b> (Grades 3-8)
<b>School</b>	<b>98.0</b>	<b>97.4</b>	<b>98.9</b>	<b>87.4</b>
<b>District</b>	<b>52.2</b>	<b>61.4</b>	<b>72.0</b>	<b>36.4</b>

Icahn Charter School has consistently outperformed its local school district on the state mathematics exam by a wide margin, more than 50 percentage points in the most recent year.

<b>Comparative Measure:</b> <i>Each year, the school will exceed its expected level of performance on the State Mathematics exam by at least a small Effect Size (performing higher than expected to small degree) according to a regression analysis controlling for students eligible for free lunch among all public schools in New York State.</i>				
<b>Results (in percents)</b>				
	<b>School Year</b>			
<b>Index</b>	<b>2006-07</b> (Grade 3-7) (Tested: 167)	<b>2007-08</b> (Grades 3-8) (Tested: 206)	<b>2008-09</b> (Grades 2-8) (Tested: 199)	<b>2009-10</b> (Grades 3-8) (Tested: 215)
<b>Predicted</b>	60.1	71.6	81.0	47.0
<b>Actual</b>	97.6	97.6	99.0	87.0
<b>Effect Size</b>	<b>1.95</b>	<b>1.64</b>	<b>1.35</b>	<b>2.02</b>

In comparison to demographically similar schools, Icahn1 has performed better than expected on the state mathematics examination and exceeded its Effect Size target to a large degree each year.

**Growth Measure:** Each year, each grade-level cohort of students will reduce by one-half the gap between the percent at or above Level 3 on the previous year's State Mathematics exam and 75 percent at or above Level 3<sup>19</sup> on the current year's State mathematics exam. If a grade-level cohort exceeds 75 percent at or above Level 3 in the previous year, the cohort is expected to show at least some increase in the current year

Results (in percents)				
Percent Level 3 & 4	School Year			
	2006-07 (Grades 4-7) (N= 122)	2007-08 (Grade 4-8) (N= 161)	2008-09 (Grade 4-8) (N= 160)	2009-10 <sup>20</sup> (Grade 4-8) (N= 165)
Baseline	97.5	98.1	99.4	98.8
Target	97.6	98.2	99.5	98.9
Actual	97.5	96.9	98.8	99.4
Cohorts Made Target	(2 of 4)	(3 of 5)	(4 of 5)	(4 of 5)

Icahn Charter School's overall performance increased in the most recent year, with four of five cohorts meeting their individual targets. In previous years, overall performance declined slightly each year but an increasing number of cohorts met their individual targets each year.

**Optional Measures:**

Each year, the percent of students performing at or above Level 3 on the State Mathematics exam in each tested grade will be greater than that of the following similar school: CS: 4, 42, 55 MS: 313, 339

**2009-2010 NYS Math Percent Level 3 or higher by all Students**

School	CS 4	CS 42	CS 55	MS 313	MS 339	ICAHN CHARTER SCHOOL 1
Grade 3	45.0	29.6	24.8			81.2
Grade 4	56.4	52.6	42.9			89.7
Grade 5	48.5	36.2	43.7			72.9
Grade 6	26.1			22.1	26.3	82.5
Grade 7	41.4			35.9	11.3	97.2
Grade 8	40.0			35.7	20.2	100.0
Total	42.9	39.4	37.1	31.2	19.2	87.2

Icahn1 met its optional comparative measure in mathematics, outperforming its identified comparison school by a minimum of 45 percentage points.

**Science**

**Accountability Plan Goal:** Students at Icahn Charter School will demonstrate competency in understanding and application of scientific reasoning.

**Outcome:** The school met its science goal.

<sup>19</sup> 2009-10 results are based on the state determined "time adjusted cut score" instead of Level 3 cut scores as in previous years.  
<sup>20</sup> If using the 650 scale score cutoff as used in previous years, the school as a whole would still have achieved the target, and all five cohorts would have met their individual targets.

**Analysis of Accountability Plan Measures:**

<b>Absolute Measure:</b> <i>By the 2008-09 school year, 75% of Icahn 1 students who are enrolled in at least their second year will score proficient (i.e. at level three) or better on the New York State Science examination.</i>				
<b>Results (in percents)</b>				
	<b>School Year</b>			
<b>Grade</b>	<b>2006-07</b> (Tested: 29)	<b>2007-08</b> (Tested: 93)	<b>2008-09</b> (Tested: 65)	<b>2009-10</b> (Tested: 7)
<b>4</b>	91	97	100	97
<b>8</b>	-	89	77	<b>100</b>

Icahn Charter School has consistently exceeded the absolute target of 75 percent proficiency on the state science exam throughout the Accountability Period. Students in both the 4<sup>th</sup> and 8<sup>th</sup> grades have surpassed the target, with an overall proficiency rate of 98.5 in the most recent year.

<b>Comparative Measure:</b> <i>On the New York State Science assessment, a greater percentage of Icahn 1 Charter School students who have been enrolled at the school for two or more years will score at proficient and advanced levels than will their peers in New York City Community School District 9.</i>				
<b>Results (in percents)</b>				
	<b>School Year</b>			
<b>Comparison</b>	<b>2006-07</b> (Grade 4)	<b>2007-08</b> (Grades 4, 8)	<b>2008-09</b> (Grades 4, 8)	<b>2009-10</b> (Grades 4, 8)
<b>School</b>	91	<b>87</b>	<b>94.5</b>	<b>98.5</b>
<b>District</b>	<b>59</b>	<b>45.5</b>	<b>51</b>	<b>NA</b>

While district comparison data for the 2009-10 school year is yet unavailable, Icahn Charter School’s 98.5 percent proficient rate far exceeds the district’s performance in the previous year. Additionally, the school has far outperformed the district in all other years.

**Social Studies**

**Accountability Plan Goal:** All Icahn Charter School students will demonstrate a thorough understanding of social studies and the impact of history on modern day.

**Outcome:** The school met its social studies goal.

**Analysis of Accountability Plan Measures:**

<b>Absolute Measure:</b> <i>By the 2008-09 school year, 75% of Icahn 1 Charter School students who have been enrolled at the school for two or more years will score proficient (i.e. at level three) or better on the New York State Social Studies examination.</i>				
<b>Results (in percents)</b>				
	<b>School Year</b>			
<b>Grade</b>	<b>2006-07</b> (Tested: 24)	<b>2007-08</b> (Tested: 59)	<b>2008-09</b> (Tested: 61)	<b>2009-10</b> (Tested: 64)
<b>5</b>	100	96	100	<b>94</b>
<b>8</b>	-	90	96	<b>100</b>

Icahn Charter School has consistently exceeded the absolute target of 75 percent proficiency during the Accountability Period. Both tested grade levels have far exceeded this target each year, with 97 percent of students achieving proficiency in the most recent year.

<b>Comparative Measure:</b> <i>On the New York State Social Studies assessment, a greater percentage of Icahn 1 Charter School students who have been enrolled at the school for two or more years will score at proficient and advanced levels than will their peers in New York City CSD 9.</i>				
<b>Results (in percents)</b>				
<b>Comparison</b>	<b>School Year</b>			
	<b>2006-07</b> (Grade 5)	<b>2007-08</b> (Grades 5, 8)	<b>2008-09</b> (Grades 5, 8)	<b>2009-10</b> (Grades 5, 8)
<b>School</b>	100	96	98	97
<b>District</b>	22	33	38	N/A

While district comparison data for the 2009-10 school year is yet unavailable, Icahn 1’s 97 percent proficient rate far exceeds the district’s performance in each of the three previous years. Additionally, the school exceeded the district’s performance by 60 percentage points in 2008-09.

**NCLB**

In addition to meeting its specific subject area goals, the school is expected under No Child Left Behind to made adequate yearly progress towards enabling all students to score at the proficient level on the state English language arts and mathematics exams. In holding charter schools to the same standards as other public schools, the state issues an annual school accountability report that indicates the school’s status each year.

**Accountability Plan Goal:** Under the state’s NCLB accountability system, the school’s Accountability Status will be “Good Standing” each year.

**Outcome:** The school met the goal. Icahn Charter School was deemed to be in good standing in each of the four years of the Accountability Period.

<b>Absolute Measure:</b> <i>Under the state’s NCLB accountability system, the school’s Accountability Status will be “Good Standing” each year.</i>				
<b>Results</b>				
<b>Status</b>	<b>School Year</b>			
	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
<b>Good Standing</b>	Yes	Yes	Yes	Yes

**Analysis of Additional Evidence**

Icahn Charter School received a letter grade of "B" on its 2009-10 New York City Department of Education (DOE) Progress Report. According to the DOE, overall Progress Report scores are based on school performance in three categories: School Environment, Student Performance and Student Progress, with the greatest emphasis placed on Student Progress. Schools can also earn extra points by achieving exemplary outcomes for high-need students. To raise the bar for schools and increase stability in grades, the overall cut scores were determined for 2009-10 based on a pre-determined scoring distribution: 25 percent A, 35 percent B, 25 percent C, 10 percent D, and 5 percent F.

The school received a “B” based on the composite score of three categories as discussed above. The school received an “A” in school environment, which measures factors other than student achievement. In Student Performance the school received an “A”, reflecting their strong overall performance. In Student Growth the school received a “B”, based on the decline in ELA scores from the previous year.



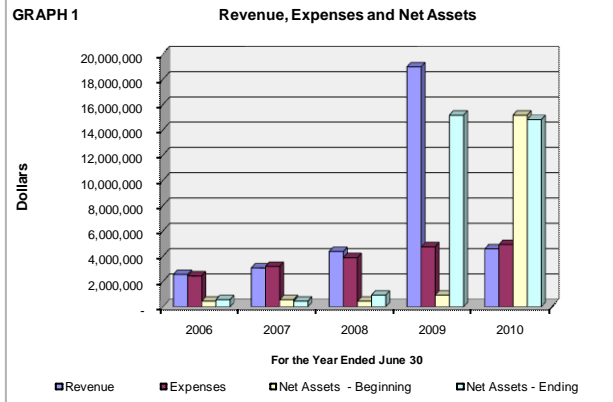
# APPENDIX: FISCAL DASHBOARD

## Icahn 1

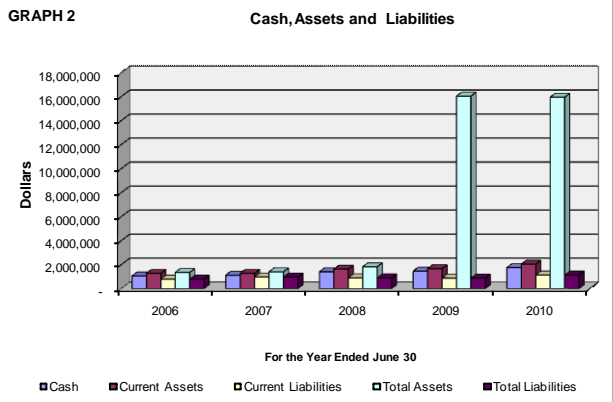
SCHOOL INFORMATION	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
<b>FINANCIAL POSITION</b>						
<b>Assets</b>						
Current Assets						
Cash and Cash Equivalents - GRAPH 2	1,057,293	1,118,979	1,406,074	1,465,101	1,753,150	-
Grants and Contracts Receivable	184,223	132,857	191,466	153,136	82,085	-
Accounts Receivable	-	-	-	-	6,719	-
Prepaid Expenses	33,218	-	31,118	48,205	112,725	-
Contributions and Other Receivables	-	22,923	-	-	88,657	-
<b>Total Current Assets - GRAPH 2</b>	<b>1,274,734</b>	<b>1,274,759</b>	<b>1,628,658</b>	<b>1,666,442</b>	<b>2,043,336</b>	-
Property, Building and Equipment, net	75,121	126,442	191,115	14,370,286	13,901,080	-
Other Assets	-	-	-	-	-	-
<b>Total Assets - GRAPH 2</b>	<b>1,349,855</b>	<b>1,401,201</b>	<b>1,819,773</b>	<b>16,036,728</b>	<b>15,944,416</b>	-
<b>Liabilities and Net Assets</b>						
Current Liabilities						
Accounts Payable and Accrued Expenses	416,215	491,807	758,710	695,964	143,137	-
Accrued Payroll and Benefits	-	-	-	-	700,580	-
Deferred Revenue	376,891	474,165	141,944	150,385	213,108	-
Current Maturities of Long-Term Debt	-	-	-	-	-	-
Short Term Debt - Bonds, Notes Payable	-	-	-	-	-	-
Other	-	-	-	35,275	77,996	-
<b>Total Current Liabilities - GRAPH 2</b>	<b>793,106</b>	<b>965,972</b>	<b>900,654</b>	<b>881,624</b>	<b>1,134,821</b>	-
L-T Debt and Notes Payable, net current maturities	-	-	-	-	-	-
<b>Total Liabilities - GRAPH 2</b>	<b>793,106</b>	<b>965,972</b>	<b>900,654</b>	<b>881,624</b>	<b>1,134,821</b>	-
<b>Net Assets</b>						
Unrestricted	532,836	422,926	916,066	959,142	1,103,149	-
Temporarily restricted	23,913	12,303	3,053	14,195,962	13,706,446	-
<b>Total Net Assets</b>	<b>556,749</b>	<b>435,229</b>	<b>919,119</b>	<b>15,155,104</b>	<b>14,809,595</b>	-
<b>Total Liabilities and Net Assets</b>	<b>1,349,855</b>	<b>1,401,201</b>	<b>1,819,773</b>	<b>16,036,728</b>	<b>15,944,416</b>	-
<b>ACTIVITIES</b>						
<b>Operating Revenue</b>						
Resident Student Enrollment	2,169,206	2,736,898	3,818,703	3,898,598	4,021,186	-
Students with Disabilities	10,171	10,815	16,770	29,916	6,840	-
Grants and Contracts						
State and local	-	-	-	-	25,656	-
Federal - Title and IDEA	-	-	-	-	379,068	-
Federal - Other	-	-	-	-	-	-
Other	-	-	-	-	55,958	-
Food Service/Child Nutrition Program	-	-	-	-	-	-
<b>Total Operating Revenue</b>	<b>2,179,377</b>	<b>2,747,713</b>	<b>3,835,473</b>	<b>3,928,514</b>	<b>4,488,708</b>	-
<b>Expenses</b>						
Regular Education	2,146,190	2,819,938	3,427,317	4,022,102	4,103,217	-
SPED	11,764	13,084	4,407	24,628	22,555	-
Regular Education & SPED (combined)	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Program Services	2,157,954	2,833,022	3,431,724	4,046,730	4,125,772	-
Management and General	278,337	354,445	453,316	695,185	797,139	-
Fundraising	-	-	-	-	-	-
<b>Total Expenses - GRAPH 1 / GRAPH 4</b>	<b>2,436,291</b>	<b>3,187,467</b>	<b>3,885,040</b>	<b>4,741,915</b>	<b>4,922,911</b>	-
<b>Surplus / (Deficit) From School Operations</b>	<b>(256,914)</b>	<b>(439,754)</b>	<b>(49,567)</b>	<b>(813,401)</b>	<b>(434,203)</b>	-
<b>Support and Other Revenue</b>						
Contributions	360,928	272,913	466,974	15,028,343	78,849	-
Fundraising	-	-	-	-	-	-
Miscellaneous Income	11,716	45,321	66,483	21,043	9,845	-
Net assets released from restriction	-	-	-	-	-	-
<b>Total Support and Other Revenue</b>	<b>372,644</b>	<b>318,234</b>	<b>533,457</b>	<b>15,049,386</b>	<b>88,694</b>	-
Total Unrestricted Revenue	2,606,265	3,077,557	4,378,180	4,784,991	5,066,918	-
Total Temporarily Restricted Revenue	(54,244)	(11,610)	(9,250)	14,192,909	(489,516)	-
<b>Total Revenue - GRAPH 1</b>	<b>2,552,021</b>	<b>3,065,947</b>	<b>4,368,930</b>	<b>18,977,900</b>	<b>4,577,402</b>	-
<b>Change in Net Assets</b>	<b>115,730</b>	<b>(121,520)</b>	<b>483,890</b>	<b>14,235,985</b>	<b>(345,509)</b>	-
<b>Net Assets - Beginning of Year - GRAPH 1</b>	<b>441,019</b>	<b>556,749</b>	<b>435,229</b>	<b>919,119</b>	<b>15,155,104</b>	<b>15,155,104</b>
Prior Year Adjustment(s)	-	-	-	-	-	-
<b>Net Assets - End of Year - GRAPH 1</b>	<b>556,749</b>	<b>435,229</b>	<b>919,119</b>	<b>15,155,104</b>	<b>14,809,595</b>	<b>15,155,104</b>
<b>Functional Expense Breakdown</b>						
Personnel Service						
Administrative Staff Personnel	-	-	-	-	348,116	-
Instructional Personnel	-	-	-	-	2,134,074	-
Non-Instructional Personnel	-	-	-	-	391,902	-
Personnel Services (Combined)	1,579,253	2,087,455	2,648,429	2,833,694	-	-
Total Salaries and Staff	1,579,253	2,087,455	2,648,429	2,833,694	2,874,092	-
Fringe Benefits & Payroll Taxes	345,914	442,017	507,059	543,720	461,867	-
Retirement	-	-	-	-	112,907	-
Management Company Fees	-	-	-	-	-	-
Building and Land Rent / Lease	50,000	62,000	50,000	50,000	50,000	-
Staff Development	66,030	88,375	112,825	100,778	177,057	-
Professional Fees, Consultant & Purchased Services	75,072	82,894	72,552	41,374	67,772	-
Marketing / Recruitment	2,182	3,647	-	-	986	-
Student Supplies, Materials & Services	109,199	159,897	185,359	192,775	189,995	-
Depreciation	64,353	66,749	95,106	607,102	599,266	-
Other	144,288	194,433	213,710	372,472	388,968	-
<b>Total Expenses</b>	<b>2,436,291</b>	<b>3,187,467</b>	<b>3,885,040</b>	<b>4,741,915</b>	<b>4,922,911</b>	-
<b>ENROLLMENT</b>						
Chartered Enroll	180	288	324	324	324	324
Revised Enroll	252	-	-	-	-	-
Actual Enroll - GRAPH 4	252	280	317	314	328	338
Chartered Grades	K-4	K-7	K-8	K-8	K-8	K-8
Revised Grades	K-6	-	-	-	-	-
Actual Grades	K-6	K-7	-	-	K-8	-

**SCHOOL ANALYSIS**

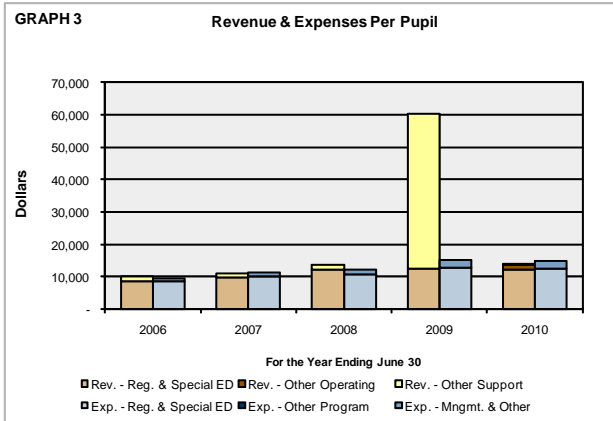
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 *	
<b>Primary School District</b>	<b>NYC</b>						
<b>Per Pupil Funding</b>	9,084	10,196	11,023	12,443	12,443	12,443	
Increase over prior year	5.8%	12.2%	8.1%	12.9%	0.0%	0.0%	
<b>PER STUDENT BREAKDOWN</b>							<b>Average - 5 Yrs. OR Charter Term</b>
<b>Revenue</b>							11,351
Operating	8,648	9,813	12,099	12,511	13,685	-	10,995
Other Revenue and Support	1,479	1,137	1,683	47,928	270	-	1,689
<b>TOTAL - GRAPH 3</b>	10,127	10,950	13,782	60,439	13,955	-	12,684
<b>Expenses</b>							87.0%
Program Services	8,563	10,118	10,826	12,888	12,579	-	13,000
Management and General, Fundraising	1,105	1,266	1,430	2,214	2,430	-	13.0%
<b>TOTAL - GRAPH 3</b>	9,668	11,384	12,256	15,102	15,009	-	72.3%
% of Program Services	88.6%	88.9%	88.3%	85.3%	83.8%	-	
% of Management and Other	11.4%	11.1%	11.7%	14.7%	16.2%	-	
% of Revenue Exceeding Expenses - GRAPH 5	4.8%	-3.8%	12.5%	300.2%	-7.0%	-	
<b>Student to Faculty Ratio</b>						10.93	
<b>Faculty to Admin Ratio</b>						16.1	
<b>Financial Responsibility Composite Scores - GRAPH 6</b>							
Score	2.4	1.1	2.6	2.5	1.8	-	2.1
Fiscally Strong 1.5 - 3.0 / Fiscally Adequate 1.0 - 1.4 / Fiscally Needs Monitoring -1.0 - 0.9	Fiscally Strong	Fiscally Adequate	Fiscally Strong	Fiscally Strong	Fiscally Strong	N/A	Fiscally Strong
<b>Working Capital - GRAPH 7</b>							
Net Working Capital	481,628	308,787	728,004	784,818	908,515	-	642,350
As % of Unrestricted Revenue	18.5%	10.0%	16.6%	16.4%	17.9%	-	15.9%
Working Capital (Current) Ratio Score	1.6	1.3	1.8	1.9	1.8	-	1.7
Risk (Low > 3.0 / Medium 1.4 - 2.9 / High < 1.4)	MEDIUM	HIGH	MEDIUM	MEDIUM	MEDIUM	N/A	MEDIUM
Rating (Excellent > 3.0 / Good 1.4 - 2.9 / Poor < 1.4)	Good	Poor	Good	Good	Good	N/A	Good
<b>Quick (Acid Test) Ratio</b>							
Score	1.6	1.3	1.8	1.8	1.7	-	1.6
Risk (Low > 2.5 / Medium 1.0 - 2.4 / High < 1.0)	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	N/A	MEDIUM
Rating (Excellent > 2.5 / Good 1.0 - 2.4 / Poor < 1.0)	Good	Good	Good	Good	Good	N/A	Good
<b>Debt to Asset Ratio - GRAPH 7</b>							
Score	0.6	0.7	0.5	0.1	0.1	-	0.4
Risk (Low < 0.50 / Medium 0.51 - .95 / High > 1.0)	MEDIUM	MEDIUM	MEDIUM	LOW	LOW	N/A	LOW
Rating (Excellent > 0.50 / Good 0.51 - .95 / Poor > 1.0)	Good	Good	Good	Excellent	Excellent	N/A	Excellent
<b>Months of Cash - GRAPH 8</b>							
Score	5.2	4.2	4.3	3.7	4.3	-	4.3
Risk (Low > 6 mo. / Medium 3 - 6 mo. / High < 3 mo.)	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	N/A	MEDIUM
Rating (Excellent > 6 mo. / Good 3 - 6 mo. / Poor < 3 mo.)	Good	Good	Good	Good	Good	N/A	Good



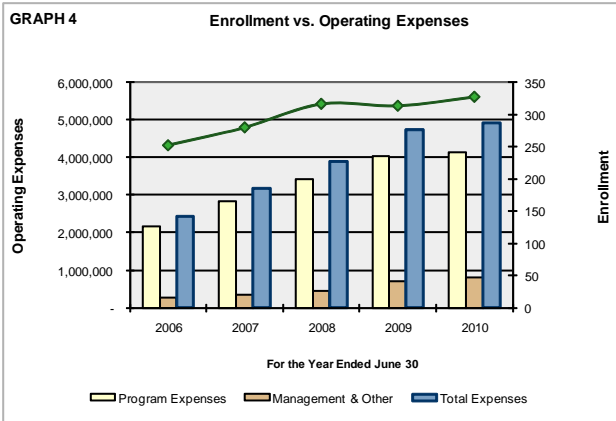
This chart illustrates total revenue and expenses each year and the relationship those subsets have on the increase/decrease of net assets on a year to year basis. Ideally subset 1, revenue, will be taller than subset 2, expenses, and as a result subset 3, net assets - beginning, will increase each year building a more fiscally viable school.



This chart illustrates the relationship between assets and liabilities and to what extent cash reserves makes up current assets. Ideally for each subset, subsets 2 thru 4, (i.e. current assets vs. current liabilities), the column on the left is taller than the immediate column on the right; and, generally speaking, the bigger that gap, the better.



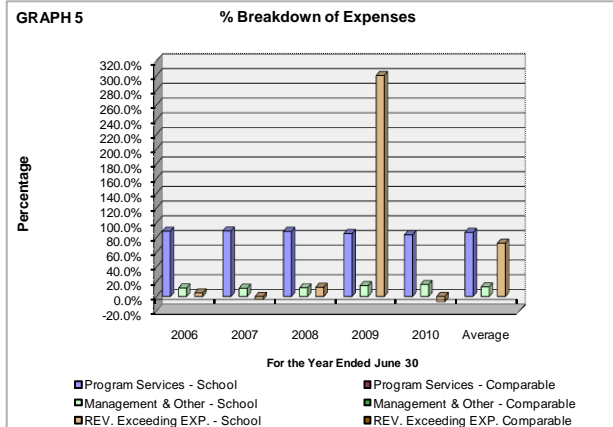
This chart illustrates the breakdown of revenue and expenses on a per pupil basis. Caution should be exercised in making school-by-school comparisons since schools serving different missions or student populations are likely to have substantially different educational cost bases. Comparisons with similar schools with similar dynamics are most valid.



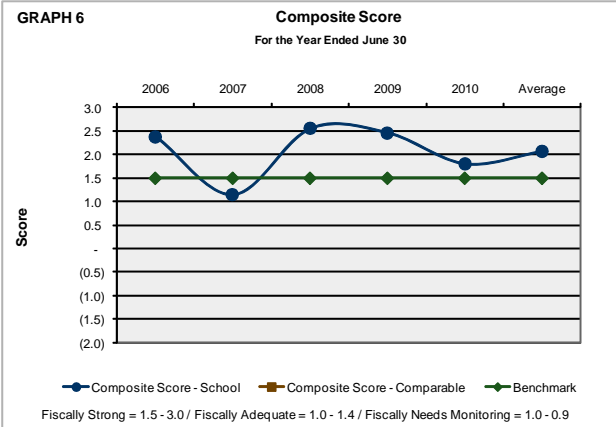
This chart illustrates to what extent the school's operating expenses have followed its student enrollment pattern. A baseline assumption that this data tests is that operating expenses increase with each additional student served. This chart also compares and contrasts growth trends of both, giving insight into what a reasonable expectation might be in terms of economies of scale.

### COMPARABLE SCHOOL / REGION:

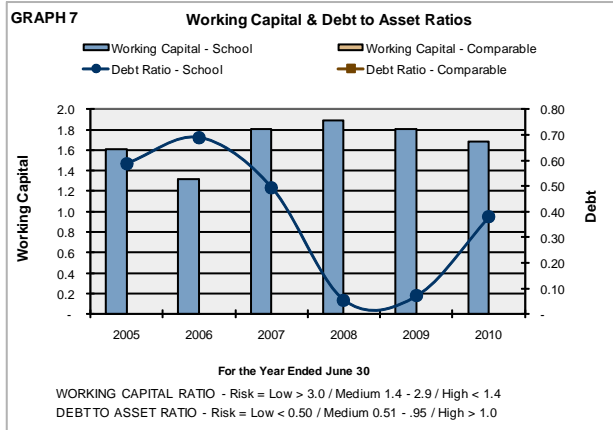
\* Average = Average - 5 Yrs. OR Charter Term



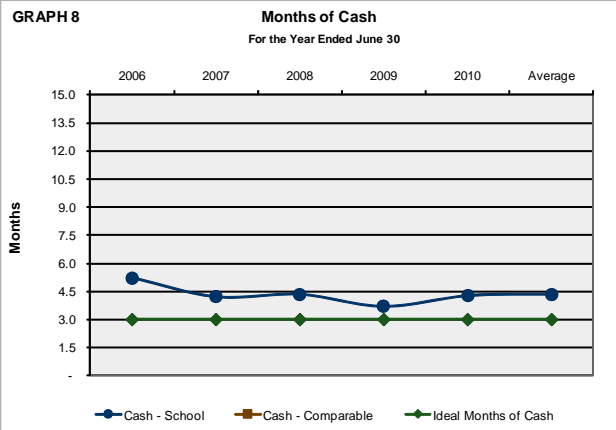
This chart illustrates the percentage expense breakdown between program services and management & others as well as the percentage of revenues exceeding expenses. Ideally the percentage expense for program services will far exceed that of the management & other expense. The percentage of revenues exceeding expenses should not be negative. Similar caution, as mentioned on GRAPH 3, should be used in comparing schools.



This chart illustrates a school's composite score based on the methodology developed by the United States Department of Education (USDOE) to determine whether private not-for-profit colleges and universities are financially strong enough to participate in federal loan programs. These scores can be valid for observing the fiscal trends of a particular school and used as a tool to compare the results of different schools.



This chart illustrates Working Capital and Debt to Asset Ratios. W/C indicates if a school has enough short-term assets to cover its immediate liabilities/short term debt. Debt to Asset indicates what proportion of debt a school has relative to its assets. The measure gives an idea to the leverage of the school along with the potential risks the school faces in terms of its debt-load.



This chart illustrates how many months of cash the school has in reserves. This metric is to measure solvency – the school's ability to pay debts and claims as they come due. This gives some idea of how long a school could continue its ongoing operating costs without tapping into some other, non-cash form of financing in the event that revenues were to cease flowing to the school.

*Disclosure Best Practice Example*

**Comprehensive Information on State’s Charter School Statute – sourced from TD Securities**

- See APPENDIX F
- 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.

**APPENDIX F**

**SUMMARY OF CERTAIN PROVISIONS OF “SAMPLE STATE” LAW**

This Appendix summarizes certain provisions of New York charter school law. This Appendix provides a summary only, and only for informational purposes. Potential investors should refer to and independently evaluate applicable provisions of the charter school law in their entirety, with assistance from counsel as necessary, for a complete understanding of their terms. Further, potential investors should note that the provisions summarized below are subject to change, and this summary only pertains to certain aspects of currently existing law. See “BONDHOLDERS’ RISKS — Future Changes to Charter School Laws”.

**Purpose (New York Education Law § 2850)**

The purpose of this article is to authorize a system of charter schools to provide opportunities for teachers, parents, and community members to establish and maintain schools that operate independently of existing schools and school districts in order to accomplish the following objectives:

- (a) Improve student learning and achievement;
- (b) Increase learning opportunities for all students, with special emphasis on expanded learning experiences for students who are at-risk of academic failure;
- (c) Encourage the use of different and innovative teaching methods;
- (d) Create new professional opportunities for teachers, school administrators and other school personnel;
- (e) Provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system; and
- (f) Provide schools with a method to change from rule-based to performance-based accountability systems by holding the schools established under this article accountable for meeting measurable student achievement results.

**Eligible Applicants; Applications; Submission (New York Education Law § 2851-1-3)**

An application to establish a charter school may be submitted by teachers, parents, school administrators, community residents or any combination thereof. Such application may be filed in conjunction with a college, university, museum, educational institution, not-for-profit corporation exempt from taxation under paragraph 3 of subsection (c) of section 501 of the internal revenue code or for-profit business or corporate entity authorized to do business in New York state. Provided however, for-profit business or corporate entities shall not be eligible to submit an application to establish a charter school pursuant to subdivision nine-a of section twenty-eight hundred fifty-two of this article, or operate or manage a charter school for a charter issued pursuant to subdivision nine-a of section twenty-eight hundred fifty-two of this article. For charter schools established in conjunction with a for-profit business or corporate entity, the charter shall specify the extent of the entity’s participation in the management and operation of the school.

The information provided on the application shall be consistent with the provisions of this article and other applicable laws, rules and regulations.

An applicant shall submit the application to a charter entity for approval. For purposes of this article, a charter entity shall be:

(a) The board of education of a school district eligible for an apportionment of aid under subdivision four of section thirty-six hundred two (apportionment of public moneys to school districts employing eight or more teachers) of this chapter;

(b) The board of trustees of the state university of New York; or

(c) The board of regents. The board of regents shall be the only entity authorized to issue a charter pursuant to this article.

The board of regents shall be the only entity authorized to issue a charter pursuant to this article. Notwithstanding any provision of this subdivision to the contrary, an application for the conversion of an existing public school to a charter school shall be submitted to, and may only be approved by, the charter entity set forth in paragraph (a) of this subdivision. Notwithstanding any law, rule or regulation to the contrary, any such application for conversion shall be consistent with this section but shall not be subject to the process pursuant to subdivision nine-a of section twenty-eight hundred fifty-two of this article, and the charter entity shall require that the parents or guardians of a majority of the students then enrolled in the existing public school vote in favor of converting the school to a charter school.

#### **Charter Renewal (New York Education Law § 2851-4)**

Charters may be renewed, upon application, for a term of up to five years in accordance with the provisions of this article for the issuance of such charters pursuant to section twenty-eight hundred fifty-two of this article;

Such renewal application shall be submitted to the charter entity no later than six months prior to the expiration of the charter; provided, however, that the charter entity may waive such deadline for good cause shown.

#### **Charter School Organization (New York Education Law § 2853-1)**

(a) Upon the approval of a charter by the board of regents, the board of regents shall incorporate the charter school as an education corporation for a term not to exceed five years, provided however in the case of charters issued pursuant to subdivision nine-a of section twenty-eight hundred fifty-two of this article the board of regents shall incorporate the charter school as an education corporation for a term not to exceed five years in which instruction is provided to pupils plus the period commencing with the effective date of the charter and ending with the opening of the school for instruction. Such certificate of incorporation shall not modify or limit any terms of the charter approved by the board of regents. Upon approval of an application to renew a charter, the board of regents shall extend the certificate of incorporation for a term not to exceed five years. Upon termination or nonrenewal of the charter of a charter school pursuant to section twenty-eight hundred fifty-five of this article, the certificate of incorporation of the charter school shall be revoked by the board of regents pursuant to section two hundred nineteen of this chapter (change of charter), provided that compliance with the notice and hearing requirements of such section twenty-eight hundred fifty-five of this article shall be deemed to satisfy the notice and hearing requirements of such section two hundred nineteen. It shall be the duty of the trustees of the charter school to obtain federal tax-exempt status no later than one year following approval of a charter school by the board of regents. For purposes of this article, "certificate of incorporation" shall mean the provisional charter issued by the board of regents to form the charter school as an educational corporation pursuant to sections two hundred sixteen (charters) and two hundred seventeen (provisional charters) of this chapter.

(b) An education corporation organized to operate a charter school shall have all corporate powers necessary and desirable for carrying out a charter school program in accordance with the

provisions of this article, other applicable laws and regulations and the terms of the charter, including all of the powers of an education corporation formed to operate an elementary or secondary school and those powers granted under the provisions of the not-for-profit corporation law that are made applicable to charter schools by section two hundred sixteen-a (applicability of not-for-profit corporation law) of this chapter. The powers of the trustees of the charter school shall include those powers specified in section two hundred twenty-six (powers of trustees of institutions) of this chapter.

(b-I) An education corporation operating a charter school shall be authorized to operate more than one school or house any grade at more than one site, provided that a charter must be issued for each such additional school or site in accordance with the requirements for the issuance of a charter pursuant to this article and that each such additional school or site shall count as a charter issued pursuant to subdivision nine of section twenty-eight hundred fifty-two of this article; and provided further that:

(i) a charter school may operate in more than one building at a single site; and

(ii) a charter school which provides instruction to its students at different locations for a portion of their school day shall be deemed to be operating at a single site.

(c) A charter school shall be deemed an independent and autonomous public school, except as otherwise provided in this article. The charter entity and the board of regents shall be deemed to be the public agents authorized to supervise and oversee the charter school.

(d) The powers granted to a charter school under this article constitute the performance of essential public purposes and governmental purposes of this state. A charter school shall be exempt to the same extent as other public schools from all taxation, fees, assessments or special ad valorem levies on its earnings and its property, including property leased by the charter school. Instruments of conveyance to or from a charter school and any bonds or notes issued by a charter school, together with the income therefrom, shall at all times be exempt from taxation.

(e) A charter school shall not have the power to levy taxes or to acquire property by eminent domain.

(f) The board of trustees of the charter school shall have final authority for policy and operational decisions of the school. Nothing herein shall prohibit the board of trustees of a charter school from delegating decision-making authority to officers and employees of the school in accordance with the provisions of the charter.

(g) Notwithstanding any provision of law to the contrary, no civil liability shall attach to any charter entity, the board of regents, or to any of their members or employees, individually or collectively, for any acts or omissions of the charter school. Neither the local school district, the charter entity nor the state shall be liable for the debts or financial obligations of a charter school or any person or corporate entity who operates a charter school.

#### **Public and Private Assistance to Charter Schools (New York Education Law § 2853-4)**

(Effective until June 30, 2015)

\*\*a) For purposes of sections seven hundred one (power to designate text-books; purchase and loan of text-books; purchase of supplies), seven hundred eleven (aid for purchase of school library materials), seven hundred fifty-one (aid for computer software purchases) and nine hundred twelve (health and welfare services to all children) of this chapter, a charter school shall be deemed a nonpublic school in the school district within which the charter school is located. Special education programs and services shall be provided to students with a disability attending a charter school in accordance with the



individualized education program recommended by the committee or subcommittee on special education of the student's school district of residence. The charter school may arrange to have such services provided by such school district of residence or by the charter school directly or by contract with another provider. Where the charter school arranges to have the school district of residence provide such special education programs or services, such school district shall provide services in the same manner as it serves students with disabilities in other public schools in the school district, including the provision of supplementary and related services on site to the same extent to which it has a policy or practice of providing such services on the site of such other public schools. \*\*

(Effective on June 30, 2015)

**\*\***(a) For purposes of sections seven hundred one (power to designate text-books; purchase and loan of text-books; purchase of supplies), seven hundred eleven (aid for purchase of school library materials), seven hundred fifty-one (aid for computer software purchases) and nine hundred twelve (health and welfare services to all children) of this chapter, a charter school shall be deemed a nonpublic school in the school district within which the charter school is located. Special education programs and services shall be provided to students with a disability attending a charter school in accordance with the individualized education program recommended by the committee or subcommittee on special education of the student's school district of residence. The charter school may arrange to have such services provided by such school district of residence or by the charter school directly or by contract with another provider. \*\*

(b) For purposes of section thirty-six hundred thirty-five (transportation) of this chapter, a charter school shall be deemed a nonpublic school. The charter and application therefor shall set forth the manner in which students ineligible for transportation pursuant to section thirty-six hundred thirty-five of this chapter shall be transported to and from school. Any supplemental transportation provided by a charter school shall comply with all transportation safety laws and regulations applicable to other public schools. A school district may enter into a contract for the provision of supplemental transportation services to a charter school, and any such services shall be provided by the school district at cost.

(c) A charter school may contract with a school district or the governing body of a public college or university for the use of a school building and grounds, the operation and maintenance thereof. Any such contract shall provide such services or facilities at cost.

(d) Private persons and organizations are encouraged to provide funding and other assistance to the establishment or operation of charter schools.

(e) The school district of residence of children attending a charter school may, but is not required to, allow such children to participate in athletic and extra-curricular activities of the district's schools.

#### **Applicability of Other Laws (New York Education Law § 2854-1)**

(a) Notwithstanding any provision of law to the contrary, to the extent that any provision of this article is inconsistent with any other state or local law, rule or regulation, the provisions of this article shall govern and be controlling.

(b) A charter school shall meet the same health and safety, civil rights, and student assessment requirements applicable to other public schools, except as otherwise specifically provided in this article. A charter school shall be exempt from all other state and local laws, rules, regulations or policies governing public or private schools, boards of education and school districts, including those relating to school personnel and students, except as specifically provided in the school's charter or in this

article. Nothing in this subdivision shall affect the requirements of compulsory education of minors established by part one of article sixty-five (compulsory education and school census) of this chapter.

(c) A charter school shall be subject to the financial audits, the audit procedures, and the audit requirements set forth in the charter and shall be subject to audits of the comptroller of the state of New York at his or her discretion. Such procedures and standards shall be consistent with generally accepted accounting and audit standards. Independent fiscal audits shall be required at least once annually.

(d) A charter school shall design its educational programs to meet or exceed the student performance standards adopted by the board of regents and the student performance standards contained in the charter. Students attending charter school shall be required to take regents examinations to the same extent such examinations are required of other public school students.

(e) A charter school shall be subject to the provisions of articles six (freedom of information law) and seven of the public officers (open meetings law) law.

(f) A charter school shall be subject to the provisions of sections eight hundred (definitions), eight hundred one (conflicts of interest prohibited), eight hundred two (exceptions), eight hundred three (disclosure of interest), eight hundred four (contracts void), eight hundred four-a (certain interests prohibited), eight hundred five (violations), eight hundred five-a (certain action prohibited), eight hundred five-b (solemnization of marriages) and eight hundred six (code of ethics) of the general municipal law to the same extent such sections apply to school districts.

#### **Admission; Enrollment; Students (New York Education Law § 2854-2)**

A charter school shall be nonsectarian in its programs, admission policies, employment practices, and all other operations and shall not charge tuition or fees; provided that a charter school may require the payment of fees on the same basis and to the same extent as other public schools. A charter school shall not discriminate against any student, employee or any other person on the basis of ethnicity, national origin, gender, or disability or any other ground that would be unlawful if done by a school. Admission of students shall not be limited on the basis of intellectual ability, measures of achievement or aptitude, athletic ability, disability, race, creed, gender, national origin, religion, or ancestry; provided, however, that nothing in this article shall be construed to prevent the establishment of a single-sex charter school or a charter school designed to provide expanded learning opportunities for students at-risk of academic failure or students with disabilities and English language learners; and provided, further, that the charter school shall demonstrate good faith efforts to attract and retain a comparable or greater enrollment of students with disabilities, English language learners, and students who are eligible applicants for the free and reduced price lunch program when compared to the enrollment figures for such students in the school district in which the charter school is located. A charter shall not be issued to any school that would be wholly or in part under the control or direction of any religious denomination, or in which any denominational tenet or doctrine would be taught.

(b) Any child who is qualified under the laws of this state for admission to a public school is qualified for admission to a charter school. Applications for admission to a charter school shall be submitted on a uniform application form created by the department and shall be made available by a charter school in languages predominately spoken in the community in which such charter school is located. The school shall enroll each eligible student who submits a timely application by the first day of April each year, unless the number of applications exceeds the capacity of the grade level or building. In such cases, students shall be accepted from among applicants by a random selection process, provided, however, that an enrollment preference shall be provided to pupils returning to the charter school in the second or any subsequent year of operation and pupils residing in the school district in which the charter

school is located, and siblings of pupils already enrolled in the charter school. The commissioner shall establish regulations to require that the random selection process conducted pursuant to this paragraph be performed in a transparent and equitable manner and to require that the time and place of the random selection process be publicized in a manner consistent with the requirements of section one hundred four of the public officers law and be open to the public.

(c) A charter school shall serve one or more of the grades one through twelve, and shall limit admission to pupils within the grade levels served. Nothing herein shall prohibit a charter school from establishing a kindergarten program.

(d) A student may withdraw from a charter school at any time and enroll in a public school. A charter school may refuse admission to any student who has been expelled or suspended from a public school until the period of suspension or expulsion from the public school has expired, consistent with the requirements of due process.

### **Causes for Revocation or Termination (New York Education Law § 2855)**

The charter entity, or the board of regents, may terminate a charter upon any of the following grounds:

(a) When a charter school's outcome on student assessment measures adopted by the board of regents falls below the level that would allow the commissioner to revoke the registration of another public school, and student achievement on such measures has not shown improvement over the preceding three school years;

(b) Serious violations of law;

(c) Material and substantial violation of the charter, including fiscal mismanagement;

(d) When the public employment relations board makes a determination that the charter school demonstrates a practice and pattern of egregious and intentional violations of subdivision one of section two hundred nine-a (improper employer practices) of the civil service law involving interference with or discrimination against employee rights under article fourteen (Public Employees' Fair Employment Act) of the civil service law; or

(e) Repeated failure to comply with the requirement to meet or exceed enrollment and retention targets of students with disabilities, English language learners, and students who are eligible applicants for the free and reduced price lunch program pursuant to targets established by the board of regents or the board of trustees of the state university of New York, as applicable. Provided, however, if no grounds for terminating a charter are established pursuant to this section other than pursuant to this paragraph, and the charter school demonstrates that it has made extensive efforts to recruit and retain such students, including outreach to parents and families in the surrounding communities, widely publicizing the lottery for such school, and efforts to academically support such students in such charter school, then the charter entity or board of regents may retain such charter,

Notice of intent to revoke a charter shall be provided to the board of trustees of a charter school at least thirty days prior to the effective date of the proposed revocation. Such notice shall include a statement of reasons for the proposed revocation. The charter school shall be allowed at least thirty days to correct the problems associated with the proposed revocation. Prior to revocation of the charter, a charter school shall be provided an opportunity to be heard, consistent with the requirements of due process. Upon the termination of a charter, the charter school shall proceed with dissolution pursuant to the procedures of the charter and direction of the charter entity and the board of regents.

In addition to the provisions of subdivision two of this section, the charter entity or the board of regents may place a charter school falling within the provisions of subdivision one of this section on probationary status to allow the implementation of a remedial action plan. The failure of a charter school to comply with the terms and conditions of a remedial action plan may result in summary revocation of the school's charter.

Any individual or group may bring a complaint to the board of trustees of a charter school alleging a violation of the provisions of this article, the charter, or any other provision of law relating to the management or operation of the charter school. If, after presentation of the complaint to the board of trustees of a charter school, the individual or group determines that such board has not adequately addressed the complaint, they may present that complaint to the charter entity, which shall investigate and respond. If, after presentation of the complaint to the charter entity, the individual or group determines that the charter entity has not adequately addressed the complaint, they may present that complaint to the board of regents, which shall investigate and respond. The charter entity and the board of regents shall have the power and the duty to issue appropriate remedial orders to charter schools under their jurisdiction to effectuate the provisions of this section.

The regulatory power of the board of regents and the commissioner shall not extend to charter schools except as otherwise specifically provided in this article.

#### **Review and Assessment (New York Education Law § 2857-2-5)**

Each charter school shall submit to the charter entity and to the board of regents an annual report. Such report shall be issued no later than the first day of August of each year for the preceding school year and shall be made publicly available by such date and shall be posted on the charter school's website. The annual report shall be in such form as shall be prescribed by the commissioner and shall include at least the following components:

(a) a charter school report card, which shall include measures of the comparative academic and fiscal performance of the school, as prescribed by the commissioner in regulations adopted for such purpose. Such measures shall include, but not be limited to, graduation rates, dropout rates, performance of students on standardized tests, college entry rates, total spending per pupil and administrative spending per pupil. Such measures shall be presented in a format that is easily comparable to similar public schools. In addition, the charter school shall ensure that such information is easily accessible to the community including making it publicly available by transmitting it to local newspapers of general circulation and making it available for distribution at board of trustee meetings.

(b) discussion of the progress made towards achievement of the goals set forth in the charter.

(c) a certified financial statement setting forth, by appropriate categories, the revenues and expenditures for the preceding school year, including a copy of the most recent independent fiscal audit of the school and any audit conducted by the comptroller of the state of New York.

(d) efforts taken by the charter school in the existing school year, and a plan for efforts to be taken in the succeeding school year, to meet or exceed enrollment and retention targets set by the board of regents or the board of trustees of the state university of New York, as applicable, of students with disabilities, English language learners, and students who are eligible applicants for the free and reduced price lunch program established pursuant to paragraph (e) of subdivision four of section twenty-eight hundred fifty-one of this article.

The board of regents shall report annually to the governor, the temporary president of the senate, and the speaker of the assembly the following information:

(a) The number, distribution, and a brief description of new charter schools established during the preceding year;

(a-1) A list including the number of charter schools closed during the preceding year, and a brief description of the reasons therefor including, but not limited to, non-renewal of the charter or revocation of the charter;

(b) The department's assessment of the current and projected programmatic and fiscal impact of charter schools on the delivery of services by school districts;

(c) The academic progress of students attending charter schools, as measured against comparable public and nonpublic schools with similar student population characteristics wherever practicable;

(d) A list of all actions taken by a charter entity on charter application and the rationale for the renewal or revocation of any charters; and

(e) Any other information regarding charter schools that the board of regents deems necessary. The format for this annual report shall be developed in consultation with representatives of school districts and charter school officials.

The board of regents shall on an annual basis review and make available to school districts best educational practices employed by charter schools.

## **CHARTER SCHOOL FUNDING**

### **Financing of Charter Schools (New York Education Law § 2856)**

(Effective until June 30, 2015)

\*\*The enrollment of students attending charter schools shall be included in the enrollment, attendance, membership and, if applicable, count of students with disabilities of the school district in which the pupil resides. The charter school shall report all such data to the school districts of residence in a timely manner. Each school district shall report such enrollment, attendance and count of students with disabilities to the department. The school district of residence shall pay directly to the charter school for each student enrolled in the charter school who resides in the school district the charter school basic tuition, which shall be an amount equal to one hundred percent of the amount calculated pursuant to paragraph f of subdivision one of section thirty-six hundred two ("expense per pupil" definition) of this chapter for the school district for the year prior to the base year increased by the percentage change in the state total approved operating expense calculated pursuant to paragraph t of subdivision one of section thirty-six hundred two ("approved operating expense" definition) of this chapter from two years prior to the base year to the base year; provided, however, that for the two thousand twelve--two thousand thirteen school year, the charter school basic tuition shall be the amount payable by such district as charter school basic tuition for the two thousand ten — two thousand eleven school year.

The school district shall also pay directly to the charter school any federal or state aid attributable to a student with a disability attending charter school in proportion to the level of services for such student with a disability that the charter school provides directly or indirectly, Notwithstanding anything in this section to the contrary, amounts payable pursuant to this subdivision from state or local funds may be reduced pursuant to an agreement between the school and the charter entity set forth in the charter. Payments made pursuant to this subdivision shall be made by the school district in six substantially equal installments each year beginning on the first business day of July and every two months thereafter. Amounts payable under this subdivision shall be determined by the commissioner. Amounts payable to a

charter school in its first year of operation shall be based on the projections of initial-year enrollment set forth in the charter until actual enrollment data is reported to the school district by the charter school. Such projections shall be reconciled with the actual enrollment as actual enrollment data is so reported and at the end of the school's first year of operation and each subsequent year based on a final report of actual enrollment by the charter school, and any necessary adjustments resulting from such final report shall be made to payments during the school's following year of operation.

Notwithstanding any other provision of this subdivision to the contrary, payment of the federal aid attributable to a student with a disability attending a charter school shall be made in accordance with the requirements of section 8065-a of title twenty of the United States code and sections 76.785-76.799 and 300.209 of title thirty-four of the code of federal regulations. \*\*

(Effective June 30, 2015)

\*\*The enrollment of students attending charter schools shall be included in the enrollment, attendance and, if applicable, count of students with disabilities of the school district in which the pupil resides. The charter school shall report all such data to the school districts of residence in a timely manner. Each school district shall report such enrollment, attendance and count of students with disabilities to the department. The school district of residence shall pay directly to the charter school for each student enrolled in the charter school who resides in the school district the charter school basic tuition which shall be an amount equal to one hundred percent of the amount calculated pursuant to paragraph f of subdivision one of section thirty-six hundred two ("expense per pupil" definition) of this chapter for the school district for the year prior to the base year increased by the percentage change in the state total approved operating expense calculated pursuant to paragraph t of subsection one of section thirty-six hundred two of this chapter from two years prior to the base year to the base year; provided, however, that for the two thousand twelve—two thousand thirteen school year, the charter school basic tuition shall be the amount payable by such district as charter school basic tuition for the two thousand ten—two thousand eleven school year. The school district shall also pay directly to the charter school any federal or state aid attributable to a student with a disability attending charter school in proportion to the level of services for such student with a disability that the charter school provides directly or indirectly. Notwithstanding anything in this section to the contrary, amounts payable pursuant to this subdivision may be reduced pursuant to an agreement between the school and the charter entity set forth in the charter. Payments made pursuant to this subdivision shall be made by the school district in six substantially equal installments each year beginning on the first business day of July and every two months thereafter. Amounts payable under this subdivision shall be determined by the commissioner. Amounts payable to a charter school in its first year of operation shall be based on the projections of initial-year enrollment set forth in the charter. Such projections shall be reconciled with the actual enrollment at the end of the school's first year of operation, and any necessary adjustments shall be made to payments during the school's second year of operation.\*\*

In the event of the failure of the school district to make payments required by this section, the state comptroller shall deduct from any state funds which become due to such school district an amount equal to the unpaid obligation. The comptroller shall pay over such sum to the charter school upon certification of the commissioner. The commissioner shall promulgate regulations to implement the provisions of this subdivision.

Nothing in this article shall be construed to prohibit any person or organization from providing funding or other assistance to the establishment or operation of a charter school. The board of trustees of a charter school is authorized to accept gifts, donations or grants of any kind made to the charter school and to expend or use such gifts, donations or grants in accordance with the conditions prescribed by the donor; provided, however, that no gift, donation or grant may be accepted if subject to a condition that is contrary to any provision of law or term of the charter.

### **Charter School Basic Tuition (New York Education Law § 3602)**

As referenced in the New York Education Law § 2856, “expense per pupil” shall mean approved operating expense for the year prior to the base year divided by the sum, computed using year prior to the base year pupil counts, of the total aidable pupil units plus weighted pupils with disabilities. Expense per pupil for each borough in the city school district of the city of New York shall be the expense per pupil of the entire city school district.

“Base year” shall mean the school year immediately preceding the current year.

“Weighted pupils with disabilities” shall be computed as follows:

(a) “Pupils with disabilities” shall mean pupils of school age who are identified as students with disabilities pursuant to article eighty-nine of this chapter and the regulations of the commissioner and who receive special education services or attend special education programs which meet criteria established by the commissioner, operated by a school district eligible for total foundation aid pursuant to this section or by a board of cooperative educational services, whether or not the school district is a component of such board.

(b) “Weighted pupils with disabilities” shall mean the attendance, as defined in the regulations of the commissioner, of pupils with disabilities who have been determined by a school district committee on special education to require any of the following types and levels of programs or services specified in this subparagraph, and who receive such programs and services from the school district of attendance during the base year, multiplied by a special services weighting determined as follows:

(i) for placement for sixty per centum or more of the school day in a special class, or home or hospital instruction for a period of more than sixty days, or special services or programs for more than sixty per centum of the school day, the special services weighting shall be one hundred seventy percent;

(ii) for placement for twenty per centum or more of the school week in a resource room or special services or programs including related services required for twenty per centum or more of the school week, or in the case of pupils in grades seven through twelve or a multi-level middle school program as defined by the commissioner or in the case of pupils in grades four through six in an elementary school operating on a period basis, the equivalent of five periods per week, but not less than the equivalent of one hundred eighty minutes in a resource room or in other special services or programs including related services, or for at least two hours per week of direct or indirect consultant teacher services, in accordance with regulations of the commissioner adopted for such purpose, the special services weighting shall be ninety percent.

Computation of total aidable pupil units. A district’s total aidable pupil units shall be the sum of the district’s adjusted average daily attendance computed pursuant to this section for the year prior to the base year multiplied by the enrollment index computed pursuant to this section for the base year plus the additional aidable pupil units computed for the year prior to the base year under paragraph c of this subdivision.

(a) For purposes of this section weighted average daily attendance of a school district for any school year shall be computed as follows:

(1) Weighted average daily attendance shall be determined by using the average daily attendance of public school pupils in a full-day kindergarten and grades one through six as the basic unit, with the attendance of such pupils in one-half day kindergartens measured at one-half of such basic unit and the attendance of such pupils in grades seven through twelve measured at one and one-quarter of such basic unit. The sum of all such units of attendance shall be the weighted average daily attendance.

(2) In computing such attendance, the school district shall (i) determine the number of religious holidays which fall on a school day within a school year according to regulations established by the commissioner, such religious holidays to be duly recognized as such for purposes of this section by duly adopted resolution of the board of education; (ii) deduct the aggregate attendance on such religious holidays from the total aggregate attendance, by grade level; (iii) deduct such religious holidays from the total number of days of session, by grade level; (iv) compute the weighted average daily attendance for the school year.

(3) In any instance where a pupil is a resident of another state or an Indian pupil is a resident of any portion of a reservation located wholly or partly within the borders of the state pursuant to subdivision four of section forty-one hundred one (duties of commissioner regarding Indian children) of this chapter or a pupil is living on federally owned land or property, such pupil's attendance shall be counted as part of the weighted average daily attendance of the school district in which such pupil is enrolled.

(4) Resident weighted average daily attendance for purposes of determining the aid ratio of a school district for any school year shall be the weighted average daily attendance for the school year immediately preceding the base year, less the weighted average daily attendance of nonresident pupils attending public schools in the district for such school year, plus the weighted average daily attendance of pupils resident in the district but attending public schools in another district or state plus the weighted average daily attendance of pupils resident in the district but attending full-time a school operated by a board of cooperative educational services or a county vocational education and extension board for such school year. The attendance of nonresident pupils attending public school in the district and resident pupils attending such schools outside of the district shall be determined by applying to the number of such pupils registered during the school year in each case the ratio of aggregate days attendance to the possible aggregate days attendance of all pupils in attendance in the district. Indian pupils of a reservation attending public school, or pupils living on the United States military reservation at West Point attending public school, shall be deemed to be resident pupils of the district providing such school, for purposes of this paragraph. Where a school district has entered into a contract with the state university pursuant to subdivision two of section three hundred fifty-five (powers and duties of trustees — administrative and fiscal functions) of this chapter under which the school district makes payments in the nature of tuition for the education of certain children residing in the district, such children for whom such tuition payments are made shall be deemed to be resident pupils of such district for the purposes of this paragraph.

(5) In determining the resident weighted average daily attendance of a component school district of a central high school district for computing the aid ratio the weighted average daily attendance of high school pupils residing in such component district and attending the central high school shall be included. The resident weighted average daily attendance of a central high school district itself shall be the sum of the



resident weighted average daily attendance of each component school district computed as provided in the first sentence of this paragraph.

(6) Notwithstanding the provisions of subparagraphs four and five of this paragraph, when a school district shall experience an increase in resident weighted average daily attendance during the current year because of the closing in whole, or in part, of a non-public school or a campus school, or a school previously operated by the United States government on the United States military reservation at West Point, the commissioner, in computing any aid ratio of such district, shall permit the use of such additional resident weighted average daily attendance for aid ratio purposes during the current year and the next succeeding year, provided that such additional resident weighted average daily attendance attributable to such closing, or part thereof, shall be in excess of one hundred students; provided, however, that such district which qualifies for an increase in total wealth pupil units pursuant to paragraph f of this subdivision, shall use the increase in resident weighted average daily attendance, even if such increase in resident weighted average daily attendance is less than one hundred.

(b) For purposes of this section adjusted average daily attendance of a school district for any school year shall be computed as follows:

(1) Adjusted average daily attendance shall be determined by using the average daily attendance of public school pupils in a full-day kindergarten and grades one through twelve as the basic unit, with the attendance of such pupils in one-half day kindergartens measured at one-half of such basic unit. The sum of all such units of attendance shall be the adjusted average daily attendance.

(2) In computing such attendance, the school district shall (i) determine the number of religious holidays which fall on a school day within a school year according to regulations established by the commissioner, such religious holidays to be duly recognized as such for purposes of this section by duly adopted resolution of the board of education; (ii) deduct the aggregate attendance on such religious holidays from the total aggregate attendance, by grade level; (iii) deduct such religious holidays from the total number of days of session, by grade level; (iv) compute the adjusted average daily attendance for the school year.

(3) In any instance where a pupil is a resident of another state or an Indian pupil is a resident of any portion of a reservation located wholly or partly within the borders of the state pursuant to subdivision four of section forty-one hundred one (duties of commissioner regarding Indian children) of this chapter or a pupil is living on federally owned land or property, such pupil's attendance shall be counted as part of the adjusted average daily attendance of the school district in which such pupil is enrolled.

(c) Computation of additional aidable pupil units. The additional aidable pupil units used to compute total aidable pupil units pursuant to paragraph e of this subdivision shall be the sum of the attendance of summer session pupils multiplied by twelve per centum and the weighted pupils with special educational needs. Nothing contained in this paragraph shall be construed to result in the inclusion of the attendance of summer session pupils in the computation of weighted or adjusted average daily attendance pursuant to this subdivision.

“Enrollment index” shall be computed by dividing the public school enrollment for the current year by public school enrollment for the base year, both as defined in paragraph n of this subdivision, with the result carried to three places without rounding.

(a) "Enrollment" shall mean the unduplicated count of all children registered to receive educational services in grades kindergarten through twelve, including children in ungraded programs, as registered on the date prior to November first that is specified by the commissioner as the enrollment reporting date for the school district or nonpublic school, as reported to the commissioner.

(b) "Public school district enrollment" shall mean the sum of: (1) the number of children on a regular enrollment register of a public school district on such date; (2) the number of children eligible to receive home instruction in the school district on such date; (3) the number of children for whom equivalent attendance must be computed pursuant to this subdivision on such date; (4) the number of children with disabilities who are residents of such district who are registered on such date to attend programs under the provisions of paragraph c of subdivision two of section forty-four hundred one (children with handicapping conditions definitions) of this chapter; (5) the number of children eligible to receive educational services on such date but not claimed for aid pursuant to subdivision seven of section thirty-two hundred two (public schools free to resident pupils; tuition from nonresident pupils) of this chapter; and (6) the number of children registered on such date to attend programs (i) pursuant to subdivision two of section three hundred fifty-five (powers and duties of trustees — administrative and fiscal functions) of this chapter or (ii) pursuant to an agreement between the city school district of the city of New York and Hunter College pursuant to section sixty-two hundred sixteen of this chapter.

(c) Equivalent attendance shall mean the quotient of the total number of student hours of instruction in programs in a public school of a school district or a board of cooperative educational services leading to a high school diploma or a high school equivalency diploma as defined in regulations of the commissioner for pupils under the age of twenty-one not on a regular day school register of the district, divided by one thousand.

The "approved operating expense" for the apportionments to any school district hereunder shall mean the amount computed as follows: The apportionment to any school district for operating expense shall be based upon the total expenditures from its general fund and from its capital fund and from its risk retention fund for purposes of employee benefit claims related to salaries paid from the general fund, and for any city school districts with a population of more than one hundred twenty-five thousand inhabitants its expenditures from the special aid fund of grant moneys for improving pupil performance and categorical aid for special reading programs as provided in the aid to localities budget during the applicable year as approved by the commissioner, and in accordance with the classification of expenditures in use by the commissioner for the reporting by school districts of receipts, expenditures and other financial data. For the purpose of this paragraph operating expense shall be defined as total cash expenditures during the applicable year, but shall exclude:

- (1) any balances and transfers;
- (2) any payments for transportation of pupils to and from school during the regular school year inclusive of capital outlays and debt service therefor;
  - (2-a) a portion of any payments for transportation of pupils to and from district operated summer school programs pursuant to subdivision six of section thirty-six hundred twenty-two-a (aidable regular transportation) of this article, inclusive of capital outlays and debt service therefor, equal to the product of such expenditures multiplied by the quotient of the total apportionment after the proration, if any, required by such subdivision six of such section divided by the total apportionment prior to such proration;
- (3) any payments for capital outlay and debt service for school building purposes, provided, however, that in the case of a school district which has entered into a contract with state university pursuant to paragraph o of subdivision two of section three

hundred fifty-five (conduct of research and experiments) of this chapter, under which the school district makes payment to state university on account of capital outlay relating to certain children residing in such school district, such payments shall not be so excluded;

(4) any payments for cafeteria or school lunch programs;

(5) any proceeds of short term borrowings in the general fund and any payments from the proceeds of the sale of obligations in the capital fund;

(6) any cash receipts which reduce the cost of an item when applied against the expenditure therefor, except gifts, donations and earned interest and any refunds made;

(7) any payments made to boards of cooperative educational services for purposes or programs for which an apportionment is paid pursuant to other sections of this chapter, except that payments attributable to eligible pupils with disabilities and ineligible pupils residing in noncomponent districts shall be included in operating expense;

(8) any tuition payments made to other school districts inclusive of payments made to a central high school district by one of its component school districts;

(9) any apportionment or payment received from the state for experimental or special programs paid under provisions other than those found in this section and other than any apportionments or payments received from the state by the city school district of the city of Yonkers for the purpose of funding an educational improvement program pursuant to a court order and other than any other state grants in aid identified by the commissioner for general use as specified by the board of education pursuant to subdivision two of section seventeen hundred eighteen (limitation upon expenditures) of this chapter;

(10) any funds received from the federal government except the federal share of Medicaid subject to the provisions of section thirty-six hundred nine-a (moneys apportioned, when and how payable commencing July first, two thousand seven) of this part and except Impact Aid funds received pursuant to sections two and six of Public Law eighty-one-eight hundred seventy-four (PL 81-874) or any law superseding such law in any such district which received aid pursuant to both such sections; provided further, however, that there shall be excluded from such federal funds or other apportionments any payments from such funds already deducted pursuant to this paragraph;

(11) any payments made for which an apportionment is disallowed pursuant to regulations of the commissioner;

(12) any expenditures made for accounting, tabulation, or computer equipment, in excess of ten thousand dollars unless such expenditures shall have been specifically approved by the commissioner;

(13) any rentals received payments received pursuant to the provisions of section four hundred three-a (Leasing of school property) of this chapter;

(14) any rentals or other annual payments received pursuant to the provisions of section four hundred three-b (Leasing of school buildings and facilities) of this chapter;

(15) any expenditures made for persons twenty-one years of age or over attending employment preparation education programs pursuant to subdivision eleven of this section;

(16) any tuition payments made pursuant to a contract under the provisions of paragraphs e, f, g, h, i and l of subdivision two of section forty-four hundred one ("special services or programs" definition) of this chapter or any tuition payments on behalf of pupils attending a state school under paragraph d of such subdivision;

(17) in any year in which expenditures are made to the New York state teachers' retirement system or the New York state and local employees' retirement system for both the prior school year and the current school year, any expenditures made to such retirement systems and recorded in the school year prior to the school year in which such obligations are paid; and

(18) any payments to the commissioner of taxation and finance pursuant to article twenty-three (metropolitan commuter transportation mobility tax) of the tax law.

#### **Transitional Aid for Charter School Payments (New York Education Law § 3602)**

In addition to any other apportionment under this section, for the two thousand seven — two thousand eight school year and thereafter, a school district other than a city school district in a city having a population of one million or more shall be eligible for an apportionment in an amount equal to the sum of:

(a) the product of (i) the product of eighty percent multiplied by the charter school basic tuition computed for such school district for the base year pursuant to section twenty-eight hundred fifty-six of this chapter, multiplied by (ii) the positive difference, if any, of the number of resident pupils enrolled in the charter school in the base year less the number of resident pupils enrolled in a charter school in the year prior to the base year, provided, however, that a school district shall be eligible for an apportionment pursuant to this paragraph only if the number of its resident pupils enrolled in charter schools in the base year exceeds two percent of the total resident public school district enrollment of such school district in the base year or the total general fund payments made by such district to charter schools in the base year for resident pupils enrolled in charter schools exceeds two percent of total general fund expenditures of such district in the base year, plus

(b) the product of (i) the product of sixty percent multiplied by the charter school basic tuition computed for such school district for the base year pursuant to section twenty-eight hundred fifty-six of this chapter, multiplied by (ii) the positive difference, if any, of the number of resident pupils enrolled in the charter school in the year prior to the base year less the number of resident pupils enrolled in a charter school in the year two years prior to the base year, provided, however, that a school district shall be eligible for an apportionment pursuant to this paragraph only if the number of its resident pupils enrolled in charter schools in the year prior to the base year exceeds two percent of the total resident public school district enrollment of such school district in the year prior to the base year or the total general fund payments made by such district to charter schools in the year prior to the base year for resident pupils enrolled in charter schools exceeds two percent of the total general fund expenditures of such district in the year prior to the base year, plus

(c) the product of (i) the product of forty percent multiplied by the charter school basic tuition computed for such school district for the base year pursuant to section twenty-eight hundred fifty-six of this chapter, multiplied by (ii) the positive difference, if any, of the number of resident pupils enrolled in the charter school in the year two years prior to the base year less the number of resident pupils enrolled in a charter school in the year three years prior to the base year, provided, however, that a school district shall be eligible for an apportionment pursuant to this paragraph only if the number of its resident pupils enrolled in charter schools in the year two years prior to the base year exceeds two percent of the total resident public school district enrollment of such school district in the year two years prior to the base year or the total general fund payments made by such district to charter schools in the year two years prior to the base year for resident pupils enrolled in charter schools exceeds two percent of the total general fund expenditures of such district in the year two years prior to the base year.

(d) For purposes of this subdivision the number of pupils enrolled in a charter school shall not include pupils enrolled in a charter school for which the charter was approved by a charter entity contained in paragraph a of subdivision three of section twenty-eight hundred fifty-one of this chapter.

**Public School District Payments to Charter Schools (N.Y. Comp. Codes & Regs. Title 8, § 119.1(a), (b))**

In the event of the failure of a school district to make payments to a charter school as required by section 2856 of the Education Law, the commissioner shall certify the amount of the unpaid obligation to the comptroller to be deducted from any State aid payments which become due to such school district. The amount of each school district's obligation shall be calculated in accordance with this section.

For the purposes of this section:

(a) Legally absent means to be absent for: personal illness, illness or death in the family, impassable roads or weather, religious observance, quarantine, required court appearances, attendance at health clinics, approved college visits, military obligations, disciplinary detention of an incarcerated youth, or for such other reasons as may be approved by the commissioner.

(b) Period of enrollment means that period commencing on the first day of the school year that a pupil is enrolled in and is physically present at, or legally absent from, an educational program or service of a charter school and ending on the last day of the school year that such pupil is so enrolled and physically present at, or legally absent from, such program or service.

(c) Enrollment for each charter school student shall mean the quotient, calculated to three decimals without rounding, obtained when the total number of weeks of the period of enrollment of such student is divided by the total number of weeks in the full school year of the educational program or service of the charter school. For the purposes of this section, three consecutive days of enrollment within the same week and within the same month shall be the equivalent of one week of enrollment, provided that no more than four weeks of enrollment may be counted in any calendar month.

(d) Levels of service shall mean the categories of programs for students with disabilities specified in section 3602(19)(b)(1)-(4) of the Education Law.

(e) Approved operating expense shall mean the amount calculated pursuant to section 3602(11) of the Education Law.

(f) Expense per pupil shall mean the amount calculated pursuant to section 3602(1)(f) of the Education Law for the school district using year prior to the base year expenditures and pupils, as established by the commissioner based on the electronic data file prepared by the commissioner on May

15th of the base year pursuant to section 305(21)(b) of the Education Law. Where the expense per pupil is not available for a school district, the expense per pupil shall be deemed to be the average expense per pupil for the county in which the school district is located.

(g) Adjusted expense per pupil shall be the district's expense per pupil increased by the percent change in the State total approved operating expense calculated pursuant to section 3602(11) of the Education Law from two years prior to the base year to the base year, as established by the commissioner based on the electronic data file prepared by the commissioner on May 15th of the base year pursuant to section 305(21)(b) of the Education Law.

(h) State aid attributable to a student with a disability attending a charter school shall mean the sum of excess cost aid payable to a public school district pursuant to section 3602(19)(4) of the Education Law based on the resident weighted enrollment in the charter school of pupils with disabilities receiving special services or programs provided directly or indirectly by the charter school in the current school year and any apportionment payable to such public school district pursuant to paragraph 5 of such subdivision 19 of the Education Law that is based on the cost of special services or programs provided directly or indirectly by the charter school to such pupil in the current school year. Excess cost aid for the purposes of this section shall equal the product of excess cost aid per pupil calculated pursuant to section 3602(19)(3) of the Education Law, the proportion of the weighting attributable to the student's level of service provided directly or indirectly by the charter school pursuant to section 3602(19)(b)(1)-(4) of the Education Law, and the student's enrollment in such charter school in the current school year.

(i) Federal aid attributable to a student with a disability attending a charter school, and receiving special education services or programs provided directly or indirectly by the charter school, shall mean:

(i) for the first year of operation of the charter school, the allocation that would be attributable to the charter school pursuant to 20 U.S.C. 1411 and 1419 (United States Code, 1994 edition, Supplement III, Volume 2; Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402-9328; 1998 - available at the Office of Vocational and Educational Services for Individuals with Disabilities, Room 1624, One Commerce Plaza, Albany, NY 12234) for a pupil who is identified as a student with a disability, as such term is defined in section 200.1 of this Title, who is included in a report to the commissioner of pupils so identified as of December 1st of the current school year, or for such other pupil count as specified by the Federal government for the current school year, provided that the enrollment of such students in the charter school during the current school year shall be used for this purpose until such report, or a report of such other pupil count, has been received by the commissioner; and

(ii) for the second year of operation of the charter school and thereafter, the allocation that would be attributable to the charter school pursuant to 20 U.S.C. 1411 and 1419 (United States Code, 1994 edition, Supplement III, Volume 2; Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402-9328; 1998 - available at the Office of Vocational and Educational Services for Individuals with Disabilities, Room 1624, One Commerce Plaza, Albany, NY 12234) for a pupil who is identified as a student with a disability, as such term is defined in section 200.1 of this Title, who is included in a report to the commissioner of pupils so identified as of December 1st of the base year, or for such other pupil count as specified by the Federal government.

**Financial Obligations of Charter Schools, Public School Districts and Education Department (N.Y. Comp. Codes & Regs. Title 8, § 119.1(c)-(e))**

Charter school obligations:

(a) No later than 30 days prior to the first business day of July, September, November, January, March and May, each charter school shall report to each public school district with resident pupils attending the charter school and to the department an updated estimate of the enrollment of students attending the charter school in the current school year who are residents of such public school district and any reduced amounts per pupil that shall be payable to the charter school for such students pursuant to subdivision one of section 2856 of the Education Law that has been established pursuant to an agreement between the charter school and the charter school entity as set forth in the charter. For each student with a disability attending such charter school, such report shall also indicate the level of special programs or services to be provided directly or indirectly to such student by the charter school and an estimated annual cost to be incurred by the charter school in providing such special programs or services.

(b) On or before the last day of July, each charter school shall provide a final report of actual enrollment to the department and to each school district with resident pupils attending the charter school in the prior school year. For each student with a disability attending such charter school, such report shall also indicate the level of special programs or services actually provided directly or indirectly to such student by the charter school and the annual cost incurred by the charter school in providing such special programs or services.

(c) In the event of the failure of a school district to fulfill the financial obligation required by section 2856 of the Education Law equal to the amounts calculated pursuant to this section, the charter school shall notify the commissioner no later than May 31st of the school year in which the payments were due.

Public school district of residence obligations:

(a) No later than the first business day of July, September, November, January, March and May of the current school year, each public school district with resident pupils attending a charter school shall pay directly to such charter school the appropriate payment amounts as specified in subdivision one of section 2856 of the Education Law that are attributable to the enrollment of such pupils as reported to the public school district by the charter school no later than 30 days prior to each such payment date.

(b) The total amount of payments due and payable to a charter school for the current school year by a public school district shall be paid as follows:

(i) on or before the first business day of July, one sixth of the total amount due, as adjusted for any supplemental payments due or overpayments to be recovered for the prior school year;

(ii) on or before the first business day of September, two sixths of the total amount due, as adjusted for any supplemental payments due or overpayments to be recovered for the prior school year, minus any payments made before such date pursuant to subparagraph (i) of this paragraph;

(iii) on or before the first business day of November, three sixths of the total amount due, as adjusted for any supplemental payments due on overpayments to be recovered for the prior school year, minus any payments made before such date pursuant to subparagraphs (i) and (ii) of this paragraph;

(iv) on or before the first business day of January, four sixths of the total amount due, as adjusted for any supplemental payments due or overpayments to be recovered for the prior school year, minus any payments made before such date pursuant to subparagraphs (i), (ii) and (iii) of this paragraph;

(v) on or before the first business day of March, five sixths of the total amount due, as adjusted for any supplemental payments due or overpayments to be recovered for the prior school year, minus any payments made before such date pursuant to subparagraphs (i), (ii), (iii) and (iv) of this paragraph; and

(vi) on or before the first business day of May, the total amount due, as adjusted for any supplemental payments due or overpayments to be recovered for the prior school year, minus any payments made before such date pursuant to subparagraphs (i), (ii), (iii), (iv) and (v) of this paragraph.

(c) The school district financial obligation per resident student enrolled in a charter school shall equal the sum of:

(i) the product of the school district's adjusted expense per pupil and the current year enrollment of the pupil in the charter school as defined in paragraph b(3) of this section; and

(ii) the amounts of State and Federal aid, if any, that may be attributable to such pupil as defined in paragraphs (b)(8) and (9) of this section, or the amount established pursuant to an agreement between the charter school and the charter entity as set forth in the charter.

(d) The total annual obligation due to a charter school by a public school district shall be the sum of the annual financial obligations for all resident students enrolled at any time during the current school year in the charter school.

(e) School districts shall include the enrollment of resident students attending charter schools in the enrollment, attendance and, if applicable, count of students with disabilities reported to the department for the purposes of claiming State aid.

Department obligations:

(a) On or before the first day of June of each year, or as soon as practicable upon the receipt of Federal notice of the estimated State appropriation for the next school year, the commissioner shall notify all school districts and all charter schools of the adjusted expense per pupil of each public school district and the estimated per pupil allocation under part B of the Federal Individuals with Disabilities Education Act to be used in the calculation of payments due to charter schools in next school year. Notice of final Federal per pupil allocation will be issued as soon as practicable upon the State's receipt of the notice of final allocation from the Federal government.

(b) In the event of the failure of a school district to fulfill the financial obligation required by section 2956 of the Education Law equal to the amounts calculated pursuant to this section, upon notification by the charter school, the commissioner shall certify the amounts of the unpaid obligations to the comptroller to be deducted from State aid due the school district and paid to the applicable charter schools.



**APPENDIX G**  
**SUMMARY OF PRINCIPAL BOND DOCUMENTS**

## SUMMARY OF PRINCIPAL BOND DOCUMENTS

*The following is a summary of certain provisions of the Indenture and Loan Agreement which are not described elsewhere in this Official Statement. This Summary does not purport to be comprehensive and reference should be made to such documents for a full and complete statement of their provisions. All capitalized terms used with respect to the Bonds and not defined in this Official Statement have the meanings set forth in the Indenture.*

### DEFINITIONS

“Accountant” means any independent certified public accountant firm selected by the Borrower.

“Accredited Investor” means an accredited investor as defined in Regulation D of the Securities Act of 1933, as in effect on the date of the Indenture (the “Securities Act”).

“Act” means the California School Finance Authority Act, constituting Chapter 18 (commencing with Section 17170) of Part 10 of Division 1 of Title 1 of the Education Code of the State, as now in effect and as it may from time to time hereafter be amended or supplemented.

“Additional Payments” has the meaning ascribed to it in the Loan Agreement.

“Administrative Fees and Expenses” means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Trustee in connection with the Bonds, including Additional Payments.

“Authority” means the California School Finance Authority, a public instrumentality of the State established by the Act.

“Authorized Borrower Representative” means any person who at the time and from time to time may be designated, by written certificate furnished to the Authority and the Trustee, as a person authorized to act on behalf of the Borrower. Such certificate will contain the specimen signature of such person, will be signed on behalf of the Borrower by any officer of the Borrower and may designate an alternate or alternates.

“Authorized Denominations” means \$25,000 and any integral multiple of \$5,000 in excess thereof.

“Authorized Signatory” means any member of the Authority and any other person as may be designated and authorized to sign on behalf of the Authority pursuant to a resolution adopted thereby.

“Beneficial Owner” means, (i) when used with Bonds registered to Cede & Co. as nominee of the Depository, the person who is considered the beneficial owner of the Bonds and, with respect to the Bonds pursuant to the arrangements for book entry determination of ownership applicable to the Depository and, (ii) for purposes of the Indenture, any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds and, with respect to the Bonds (including persons holding such through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds and, with respect to the Bonds for federal income tax purposes.

“Bondholder” or “Holder” means, with respect to any Bond, the person in whose name such Bond is registered.

“Bonds” means the Tax-Exempt Bonds and the Taxable Bonds.

“Book Value” means, when used in connection with Property of a Person, the value of such Property, net of accumulated depreciation, as it is carried on the books of such Person and in conformity with generally accepted accounting principles.

“Borrower” means Coastal Academy Charter School, Inc., a school established pursuant to the Charter School Law and operated as a California nonprofit public benefit corporation.

“Borrower Documents” means the Loan Agreement, the Borrower Resolutions, the Tax Certificate and the Deed of Trust.

“Borrower Resolutions” means the resolution or resolutions or other authorizing action adopted by the governing board of the Borrower authorizing the Loan and execution and delivery of the Loan Agreement.

“Business Day” means any day other than a Saturday, a Sunday or a day on which banking institutions in the city in which the Principal Corporate Trust Office is located are authorized or obligated by law or executive order to be closed.

“Capitalized Interest Fund” means the fund by such name established pursuant to the Indenture.

“Capital Maintenance and Operating Fund” means the fund by such name established pursuant to the Indenture.

“Capital Maintenance and Operating Fund Requirement” means for any month, the amount provided in the Indenture.

“Cash on Hand” means 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 received within the two months following the end of such Fiscal Year.

“Certificate of the Authority,” “Consent of the Authority,” “Order of the Authority,” “Request of the Authority” or “Requisition of the Authority” mean, respectively, a written certificate, consent, order, request or requisition of the Authority signed by or on behalf of the Authority by an Authorized Signatory authorized to execute such a document on its behalf.

“Certificate of the Borrower,” “Consent of the Borrower,” “Request of the Borrower,” “Requisition of the Borrower” or “Statement of the Borrower” mean, respectively, a written certificate, request, requisition or statement of the Borrower executed by its Chief Financial Officer, the President of its board of directors or such other person as may be designated by any of such officials to sign for the Borrower.

“Charter School Law” means the Charter Schools Act of 1992, constituting Part 26.8, commencing with Section 47600, of Division 4 of Title 2 of the Education Code of the State, as now in effect and as it may from time to time hereafter be amended or supplemented.

“Change In Use Fund” means the fund by that name established pursuant to the Indenture.

“Code” means the Internal Revenue Code of 1986, or any successor code or law, and any regulations in effect or promulgated thereunder.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of February 1, 2013, between the Borrower and the Trustee, as dissemination agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Borrower and related to the original authorization, execution, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, fees and expenses of the Authority, the State Treasurer’s Office, the Trustee, legal fees and charges of counsel, underwriters’ discount, rating agency fees and any other costs, charges or fees in connection with the original delivery of the Bonds.

“Costs of Issuance Fund” means the fund by that name established pursuant to the Indenture.

“Debt Service” means, for any period of time, the sum of (a) the interest payable during such period on all Long-Term Indebtedness, excluding interest which is to be paid from capitalized interest on such Long-Term Indebtedness, (b) that portion of the principal amount of all Long-Term Indebtedness maturing on each principal payment date during such period, and (c) that portion of the principal amount of all Outstanding Long-Term Indebtedness which are Term Bonds required to be redeemed or paid from Sinking Fund Installments during such period (together with the redemption premiums, if any, thereon).

“Debt Service Coverage Ratio” means for any period of time the ratio determined by dividing the Income Available for Debt Service for such period by the Debt Service.

“Deed of Trust” means that certain Deed of Trust with Assignment of Rents, Security Agreement and Fixture Filing, dated as of February 1, 2013, by the Borrower, as trustor, in favor of Chicago Title Company, as trustee thereunder, creating a lien on the Facility located in the County of San Diego 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.

“Depository” means The Depository Trust Company and its successors and assigns, or any other depository selected as set forth in the Indenture which agrees to follow the procedures required to be followed by such depository in connection with the Bonds.

“Education Code” means the Education Code of the State of California.

“Effective Date” means February 7, 2013, the effective date of the Indenture.

“Electronic Notice” means notice through telecopy, telegraph, telex, facsimile, transmission, internet, e-mail or other electronic means of communication, capable of making a written record.

“Eligible Collateral” means cash, noncallable Government Obligations maturing on or prior to the applicable Interest Payment Date or other collateral, which will be rated “AAA” (or the equivalent) by the Rating Agency, which collateral may be provided pursuant to a collateral pledge agreement acceptable to the Authority and the Rating Agency.

“Eligible Securities” means any of the following obligations as and to the extent that such obligations are at the time legal investments under the Act for moneys held under the Indenture and then proposed to be invested therein and will be the sole investments in which amounts on deposit in any fund or account created under the Indenture or under the Loan Agreement will be invested:

(1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America or any Federal Reserve Bank and CATS and TIGRS) or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by the United States of America;

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies, provided that such obligations are backed by the full faith and credit of the United States of America (stripped securities will constitute Eligible Securities only if they have been stripped by the agency itself); U.S. Export-Import Bank, Farmers Home Administration, Federal Financing Bank, General

Services Administration, U.S. Maritime Administration, U.S. Department of Housing and Urban Development, Government National Mortgage Association, and Federal Housing Administration;

(3) Bonds, debentures, notes, or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities will constitute Eligible Securities only if they have been stripped by the agency itself): Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), Student Loan Marketing Association, Resolution Funding Corporation or Farm Credit System;

(4) Bonds or notes issued by any state or municipality which are, at the time of purchase, rated by S&P and Moody's in one of the two highest rating categories assigned by such agencies;

(5) repurchase agreements with either a primary dealer on the reporting dealer list of the Federal Reserve or any bank, which, in either case, is, at the time of execution of the agreement, rated "A" or better by S&P and Moody's, provided that (a) the term of such repurchase agreement is not greater than thirty days, (b) the Trustee or third party acting solely as agent for the Trustee has possession of the collateral, (c) the collateral is valued weekly and the market value of the collateral is maintained at an amount equal to at least 104% (or, if the collateral consists of obligations of FHLMC or FNMA, 105%) of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus interest, (d) failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately, (e) the repurchase securities are either obligations of, or fully guaranteed as to principal and interest by, the United States or any federal agency backed by the full faith and credit of the United States; (f) the repurchase securities are free and clear of any third-party lien or claim; and (g) there will have been delivered to the Trustee, the Authority and the Borrower an Opinion of Counsel to the effect that such repurchase agreement meets all guidelines under State law for legal investment of public funds;

(6) investment agreements, including guaranteed investment contracts ("GICs") with providers, which, at the time of execution of the agreement, is in one of the three highest rating categories of Moody's and S&P;

(7) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having, at the time of purchase, a rating by S&P of AAAM-G, AAA-m, or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2, including such funds advised, managed or sponsored by the Trustee or any of its affiliates;

(8) certificates of deposit secured at all times by collateral described in (1) and/or (2) above, issued by commercial banks, savings and loan associations or mutual savings banks relating to collateral held by a third party, and in which collateral the Trustee on behalf of the Bondholders has a perfected first security interest;

(9) certificates of deposit, savings accounts, deposit accounts or money market deposits with domestic commercial banks (including the Trustee and its affiliates) which (a) have a rating on the date of purchase in one of the two highest short-term rating categories (without regard to qualifier) of at least two nationally recognized rating agencies or (b) are fully insured by FDIC, including BIF and SAIF;

(10) federal funds or bankers acceptances with a maximum term of one year of any bank which has, at the time of purchase, an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A-3" or better by Moody's and "A-1" or "A" or better by S&P;

(11) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State as it may be amended;

- (12) the State of California's Pooled Money Investment Account;
- (13) the State of California's Local Agency Investment Fund;
- (14) obligations of a bank or other financial institution rated, at the time of purchase, at least "Aa3" by the Rating Agency; and
- (15) any other investments approved in writing by the Authority, provided that such investment does not adversely affect S&P or Moody's then-current rating on the Bonds.

"Environmental Regulations" means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to dangerous, toxic or hazardous pollutants, Hazardous Substances or chemical waste, materials or substances.

"Event of Default" means any of the events so specified in the Indenture.

"Facility" means all the real property described in the Loan Agreement, together with the improvements thereon.

"Fiscal Year" means, with respect to the Borrower, the twelve month period beginning July 1 and ending on June 30, or such other twelve month period as may be designated in a written Statement of the Borrower delivered to the Authority and the Trustee.

"Fitch" means Fitch Ratings, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, or, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority.

"501(c)(3) Organization" means an organization described in Section 501(c)(3) of the Code, including a single member limited liability company classified as a disregarded entity for federal income tax purposes whose sole member is an organization described in Section 501(c)(3) of the Code.

"Government Code" means the Government Code of the State of California.

"Governmental Unit" will have the meaning set forth in Section 150 of the Code.

"Government Obligations" means noncallable and nonprepayable direct obligations of the United States of America or obligations which as to full and timely payment of principal and interest constitute full faith and credit obligations of the United States of America (excluding therefrom unit investment trusts and money market funds comprised of such securities).

"Gross Revenues" means, for any 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.

"Guaranty" means all loan commitments and all obligations of the Borrower guaranteeing in any manner whatever, whether directly or indirectly, any obligation of any other Person that would, if such other Person were the Borrower, constitute Indebtedness.

"Hazardous Substances" means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Project or to persons on or about the Project or (ii) cause the Project to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea

formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of "waste," "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous waste," "restricted hazardous waste," or "toxic substances" or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act ("RCRA"), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Hazardous Waste Control Law ("HWCL"), Cal. Health & Safety Code §§ 25100 et seq.; the Hazardous Substance Account Act ("HSAA"), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety Code §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the "Porter-Cologne Act"), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Project or the owners and/or occupants of property adjacent to or surrounding the Project, or any other person coming upon the Project or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

"Income Available for Debt Service" means, unless the context provides otherwise, with respect to the Borrower as to any period of time, its combined excess of revenues over expenses (excluding income from all Irrevocable Deposits), before depreciation, amortization, and interest expense, as determined in accordance with generally accepted accounting principles; provided, that no determination thereof will take into account: (a) any gain or loss resulting from either the early extinguishment or refinancing of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business; (b) gifts, grants, bequests, donations or contributions, and income therefrom, to the extent specifically permanently restricted by the donor or by law to a particular purpose inconsistent with their use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses; (c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards; (d) adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles; (e) unrealized gains or losses that do not result in the receipt or expenditure of cash; and (f) nonrecurring items which involve the receipt, expenditure or transfer of assets.

"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.

"Indenture" means that certain indenture, dated as of February 1, 2013, by and between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any supplemental indenture entered into pursuant to the provisions thereof.

"Independent Consultant" means a firm (but not an individual) which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in the Borrower or any affiliate thereof and (3) is not connected with the Borrower or any affiliate thereof as an officer, employee, promoter, underwriter, trustee, partner, director or Person performing similar functions, and designated by the Borrower, qualified to pass upon questions relating to the financial affairs of facilities or operations of the type or types operated by the Borrower and having a favorable reputation for skill and experience in the financial affairs of such facilities or operations.

"Insurance and Condemnation Proceeds Fund" means the fund by that name established pursuant to the Indenture.

**“Intercept”** means the apportionment from the State Controller, pursuant to Section 17199.4(a)(4) of the Education Code and the Intercept Notice, of amounts specified in the Intercept Notice and payable directly to the Trustee.

**“Intercept Notice”** means any notice from the Borrower to the State Controller, pursuant to Section 17199.4(a)(1) and (4) of the Education Code, specifying a transfer schedule for the payment directly to the Trustee of one or more of the following: (x) principal of the Bonds, (y) interest on the Bonds and (z) other costs necessary or incidental to financing pursuant to the Act relating to the Bonds, including Additional Payments, in substantially the form attached to the Loan Agreement, as the same may be amended, supplemented or restated from time to time.

**“Interest Account”** means the account by that name in the Revenue Fund established pursuant to the Indenture.

**“Interest Payment Date”** means each April 1 and October 1, commencing October 1, 2013.

**“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.

**“Irrevocable Deposit”** means the irrevocable deposit in trust of cash in an amount (or Government Obligations the principal of and interest on which will be in an amount), and under terms sufficient to pay all or a portion of the principal of and/or premium, if any, and interest on, as the same will become due, of any Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit may be any trustee or escrow agent authorized to act in such capacity.

**“Lien”** means any mortgage or pledge of, security interest in or lien or encumbrance on the Facility or the Gross Revenues.

**“Loan”** means the loan of Bond proceeds from the Authority to the Borrower pursuant to the Loan Agreement.

**“Loan Agreement”** means that certain loan agreement, dated as of February 1, 2013, between the Authority and the Borrower, as originally executed or as it may from time to time be supplemented, modified or amended subject to and in accordance with the terms thereof and of the Indenture.

**“Loan Repayments”** means the payments due and payable from the Borrower to the Authority pursuant to the Loan Agreement.

**“Long-Term Indebtedness”** means Indebtedness other than Short-Term Indebtedness or Interim Indebtedness.

**“Mandatory Sinking Account Payment”** means the amount so designated which is established pursuant to the Indenture with respect to the Bonds.

**“Maximum Annual Debt Service”** means the maximum amount of Debt Service becoming due on all Outstanding Long-Term Indebtedness in the then current or any future Fiscal Year.

**“Moody’s”** means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, or, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority.



“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.

“Opinion of Bond Counsel” means an Opinion of Counsel by a nationally recognized bond counsel firm experienced in matters relating to the exclusion from gross income for federal income tax purposes of interest payable on obligations of state and political subdivisions.

“Opinion of Counsel” means a written opinion of counsel (which may be counsel for the Authority) selected by the Authority. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel will include the statements provided for in the Indenture.

“Optional Redemption Account” means the account by that name in the Redemption Fund established pursuant to the Indenture.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by 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.

“Payments” means (i) all moneys (except for any moneys received in respect of Administrative Fees and Expenses) received by the Trustee with respect to the Intercept, (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.

“Permitted Liens” means:

(a) Liens arising by reason of good faith deposits by the Borrower in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

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

(c) Any judgment lien against the Borrower so long as such judgment is being contested in good faith and execution thereon is stayed;

(d) Liens shown on the title policy for the Facility, as of the Closing Date, including (i) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than ninety (90) days; (iii) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservation and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (iv) the rights of the Authority and the Trustee under the Indenture, the Loan Agreement and the Deed of Trust; and (v) landlord's liens;

(e) Any Lien arising by reason of any escrow established to pay debt service with respect to the Bonds;

(f) Any Lien securing the obligations of the Borrower under the Loan Agreement, including the Lien of the Deed of Trust; and

(g) Any Lien securing parity Indebtedness permitted pursuant to the Loan Agreement.

"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.

"Person" means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Account" means the account by that name in the Revenue Fund established pursuant to the Indenture.

"Principal Corporate Trust Office" means for the Trustee originally appointed under the Indenture, the corporate trust office of Wells Fargo Bank, National Association, which at the date of execution of the Indenture is that specified in the Indenture, provided however, that for purposes of payment, redemption, exchange, transfer, surrender and cancellation of Bonds, means the corporate trust office of the Trustee at Northstar East Building, 608 2nd Avenue South, 12th Floor, Minneapolis, MN, or such other office or offices as the Trustee will specify in writing to the Authority.

"Principal Payment Date" means the principal and Mandatory Sinking Account Payment dates for the Bonds, which dates occur on October 1 of each year commencing October 1, 2015.

"Project" means the financing of the acquisition, improvement, construction and equipping of the Facility.

"Project Fund" means the fund by that name established pursuant to the Indenture.

"Property" means any and all rights, titles and interests in and to any and all property of the Borrower whether real (including the Facility) or personal, tangible or intangible and wherever situated whether currently owned or acquired in the future.

“Property, Plant and Equipment” means all Property which is property, plant and equipment under generally accepted accounting principles.

“Qualified Institutional Buyer” means: (1) a “qualified institutional buyer” as defined in Rule 144A promulgated under the Securities Act; (2) an entity that is directly or indirectly wholly owned or controlled by a Qualified Institutional Buyer; (3) an entity all of the investors in which are described in (1) or (2) above; or (4) a custodian or trustee for a party described in (1) or (2) above.

“Rating Agency” means at any time any rating agency including Fitch, Moody’s or S&P, then rating the Bonds at the request of the Authority or the Borrower.

“Rating Category” means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“Rebate Analyst” means the Person engaged by the Borrower to calculate any rebate liability under the Code.

“Rebate Fund” means the fund by that name established pursuant to the Indenture.

“Record Date” means, with respect to the Interest Payment Date for the Bonds, the fifteenth day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

“Remittance Address” means, (i) for payment of the Authority’s annual fee by check, California School Finance Authority, 915 Capitol Mall, Room 261, Sacramento, California 95814, or such other address designated by the Authority as such from time to time, or (ii) for payment of the Authority’s annual fee by wire transfer or ACH Transaction, Wells Fargo Bank, National Association, ABA# \_\_\_\_\_, DDA A/C# \_\_\_\_\_, Reference: [Invoice#/Borrower Name] or such other instructions designated by the Authority from time to time.

“Reserve Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

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

“Responsible Officer” of the Trustee means and includes a duly authorized officer of the Trustee, with regular responsibility for the administration of matters related to the Indenture.

“Revenue Fund” means the fund established pursuant to the Indenture.

“S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, its successors and their assigns, or, if such entity will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority.

“School” means the Coastal Academy Charter School.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attn. Call Notification Department, Fax (212) 855-7232 or to such other addresses and/or such other securities depositories as the Authority may designate to the Trustee in writing.

**“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.

**“Sinking Fund Installment”** means, with respect to any Term Bonds, each amount so designated for such Term Bonds requiring payments by the Borrower from the Revenues to be applied to the retirement of such Bonds on and prior to the stated maturity date thereof.

**“Special Record Date”** means the date established by the Trustee pursuant to the Indenture as a record date for the payment of defaulted interest on Bonds.

**“Special Redemption Account”** means the account by that name in the Redemption Fund established pursuant to the Indenture.

**“State”** means the State of California.

**“State Controller”** means the Controller of the State.

**“State School Fund”** means the fund established and maintained in the general fund of the State pursuant to Articles 1 and 2 of Chapter 1 of Part 9 of Division 1 of Title 1 of the Education Code.

**“Supplemental Indenture”** or **“Indenture supplemental thereto”** means any indenture hereafter duly authorized and entered into between the Authority and the Trustee in accordance with the provisions of the Indenture.

**“Taxable Bonds”** means the California School Finance Authority Charter School Revenue Bonds (Coastal Academy Charter School Project), Series 2013B (Taxable).

**“Tax Certificate”** means the Tax Certificate of the Authority and the Borrower dated the date of issuance of the Bonds, as the same may be amended or supplemented in accordance with its terms.

**“Tax-Exempt Bonds”** means the California School Finance Authority Charter School Revenue Bonds (Coastal Academy Charter School Project), Series 2013A.

**“Term Bonds”** means Bonds which are payable on or before their specified maturity dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

**“Trustee”** means Wells Fargo Bank, National Association, or the successor as Trustee under the Indenture as provided therein.

**“Underwriter”** means RBC Capital Markets, LLC, its successors and assigns.

## SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The Indenture provides for, among other things, the issuance, execution and delivery of Bonds and sets forth the terms thereof, the nature and extent of the security, various rights of Bondholders, rights, duties and immunities of the Trustee and the rights and obligations of the Authority.

Certain provisions of the Indenture setting forth the terms of the Bonds, the redemption provisions thereof and the use of the proceeds of the Bonds are set forth elsewhere in this Official Statement. See "THE BONDS," "ESTIMATED SOURCES AND USES OF FUNDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS." Certain provisions of the Indenture are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

### **The Bonds**

*Bond Register.* The Trustee will keep or cause to be kept, at its Principal Corporate Trust Office, books for the registration of transfer of the Bonds, which will at all reasonable times during normal business hours upon reasonable notice be open to inspection by the Authority; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register the transfer or cause to be registered the transfer, on said books, of Bonds as hereinbefore provided.

*Temporary Bonds.* The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, will be of such denomination as may be determined by the Authority, will be in registered form and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond will be executed by the Authority and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Authority issues temporary Bonds, it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Corporate Trust Office, and the Trustee will authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations, of the same maturity or maturities. Until so exchanged, the temporary Bonds will be entitled to the same benefits under the Indenture as definitive Bonds authenticated and delivered under the Indenture.

*Bonds Mutilated, Lost, Destroyed or Stolen.* If any Bond will become mutilated, the Authority, at the expense of the Holder of said Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee will be canceled by it and delivered to, or upon the order of, the Authority. If any Bond issued under the Indenture will be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to it and indemnity satisfactory to it will be given, the Authority, at the expense of the Holder, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. If any Bond mutilated, lost, destroyed or stolen will have matured, instead of issuing a substitute Bond the Trustee may pay the same without surrender upon receipt of indemnity satisfactory to the Trustee. The Authority may require payment from the Holder of a sum not exceeding the actual cost of preparing each new Bond issued under this paragraph and of the expenses which may be incurred by the Authority and the Trustee. Any Bond issued under the provisions of this paragraph in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Indenture with all other Bonds secured by the Indenture.

## **Pledge and Assignment**

### *Pledge and Assignment*

(a) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture and, subject to the rights of the Holders of the Bonds, there are pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture, all of the Payments (except Payments described in clause (i) of the definition thereof) and any other amounts (excluding proceeds of the sale of Bonds) held in any fund or account established pursuant to the Indenture (other than the Rebate Fund). 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.

(b) The Authority assigns to the Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Payments (except Payments described in clause (i) of the definition thereof) and other amounts pledged in paragraph (a) above and 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 the Deed of Trust. The Trustee will be entitled to and will receive all of such assigned 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.

(c) The Trustee will take all actions necessary for the Trustee to collect directly from the State Controller the amounts set forth in the Intercept Notice on the dates set forth in the Intercept Notice.

(d) All Payments will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee is directed to establish, maintain and hold in trust. All Payments 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.

(e) The Bonds are not and will not be deemed to constitute a debt or liability, or a pledge of the faith and credit, of the State or of any political subdivision thereof, other than the Authority, which will only be obligated to pay the Bonds solely from the Payments and funds in the Indenture provided therefor. The issuance of the Bonds will not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. 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 or to make State Apportionments or other funds available to the Borrower in any amount or at any time.

*Establishment and Application of Redemption Fund.* The Trustee will establish and maintain within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account. The Trustee will accept all moneys deposited for redemption and will deposit such moneys into the Optional Redemption Account or the Special Redemption Account, as applicable. All amounts deposited in the Optional Redemption Account and in the Special Redemption Account will be accepted and used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the redemption provisions of the Indenture, at the next succeeding date of redemption for which notice has not been given and at the redemption prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Trustee will, upon written direction of the Borrower, apply such

amounts 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, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to such Bonds (or, if such Bonds are not then subject to redemption, the par value of such Bonds); and provided further that in the case of the Optional Redemption Account in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Borrower.

#### Rebate Fund.

(a) The Trustee will establish and maintain, when required, a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee will maintain such accounts as will be necessary to comply with instructions of the Borrower given pursuant to the terms and conditions of the Tax Certificate. Subject to the transfer provisions provided in paragraph (e) below, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Certificate), for payment to the federal government of the United States of America. Neither the Authority, the Borrower nor the Holder of any Bonds will have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund will be governed by the provisions summarized under this caption “*–Rebate Fund,*” by the provisions summarized under the caption “*–Other Covenants; Amendment of the Loan Agreement,*” and by the Tax Certificate. The Trustee will be deemed conclusively to have complied with such provisions if it follows the directions of the Borrower including supplying all necessary information in the manner provided in the Tax Certificate, and will have no liability or responsibility to enforce compliance by the Borrower or the Authority with the terms of the Tax Certificate or any other tax covenants contained in the Indenture. The Trustee will not be responsible for calculating rebate amounts or for the adequacy or correctness of any rebate report or rebate calculations. The Trustee will have no independent duty to review such calculations or enforce the compliance by the Borrower with such rebate requirements. The Trustee will have no duty or obligation to determine the applicability of the Code and will only be obligated to act in accordance with written instructions provided by the Borrower.

(b) Upon the Borrower’s written direction, an amount will be deposited to the Rebate Fund by the Trustee from deposits by the Borrower, if and to the extent required, so that the balance in the Rebate Fund will equal the Rebate Requirement. Computations of the Rebate Requirement will be furnished by or on behalf of the Borrower in accordance with the Tax Certificate. The Trustee will supply to the Borrower and/or the Authority all necessary information in the manner provided in the Tax Certificate to the extent such information is reasonably available to the Trustee.

(c) The Trustee will have no obligation to rebate any amounts required to be rebated pursuant to this paragraph, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by the Borrower.

(d) At the written direction of the Borrower, the Trustee will invest all amounts held in the Rebate Fund in Eligible Securities, subject to the restrictions set forth in the Tax Certificate. Moneys will not be transferred from the Rebate Fund except as provided in paragraph (e) below. The Trustee will not be liable for any consequences arising from such investment.

(e) Upon receipt of the Borrower’s written directions, the Trustee will remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the Borrower so directs, the Trustee will deposit money into or transfer money out of the Rebate Fund from or into such accounts or funds as directed by the Borrower’s written directions; provided, however, only moneys in excess of the Rebate Requirement may, at the written direction of the Borrower or the Authority, be transferred out of the Rebate Fund to such other accounts or funds or to anyone other than the United States in satisfaction of the arbitrage

rebate obligation. Any funds remaining in the Rebate Fund after each five year remission to the United States of America, redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefor satisfactory to the Trustee, will be withdrawn and remitted to the Borrower.

(f) Notwithstanding any other provision of the Indenture, including in particular the defeasance provisions of the Indenture, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of the provisions summarized under this caption “*–Rebate Fund,*” by the provisions summarized under the caption “*–Other Covenants; Amendment of the Loan Agreement,*” and the Tax Certificate will survive the defeasance or payment in full of the Bonds.

*Establishment and Application of Project Fund.*

(a) The Trustee will establish, maintain and hold in trust a separate fund designated as the “Project Fund.” The moneys in the Project Fund will be disbursed pursuant to Requisitions of the Borrower, which will be substantially in the form provided in the Indenture. Each such Requisition of the Borrower will be sufficient evidence to the Trustee of the facts stated therein and the Trustee will have no duty to confirm the accuracy of such facts. No moneys in the Project Fund will be used to pay Costs of Issuance.

(b) When the Project will have been completed, there will be delivered to the Trustee a Certificate of the Borrower stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such Certificate, the Trustee will, as directed by said Certificate, transfer any remaining balance in such Project Fund to the Interest Account. Upon such transfer, the Project Fund will be closed.

*Establishment and Application of Costs of Issuance Fund; Insurance and Condemnation Proceeds Fund; Change in Use Fund.*

(a) The Trustee will establish, maintain and hold in trust a separate fund designated as the “Costs of Issuance Fund.” Moneys deposited in said fund will be used and withdrawn by the Trustee to pay the Costs of Issuance of the Bonds upon Requisition of the Borrower stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund, and including a copy of the invoice or statement evidencing the cost incurred. On the one hundred eightieth (180th) day following the initial issuance of the Bonds, or upon the earlier Request of the Borrower, amounts, if any, remaining in the Costs of Issuance Fund will be transferred to the Project Fund or, if the Project Fund has been closed, to the Revenue Fund.

(b) As and when needed, the Trustee will establish, maintain and hold in trust a separate fund designated as the “Insurance and Condemnation Proceeds Fund,” and administer said fund as set forth in the Loan Agreement.

(c) Before any payment from the Insurance and Condemnation Proceeds Fund will be made, the Borrower will file or cause to be filed with the Trustee a Requisition of the Borrower stating: (1) the item number of such payment; (2) the name of the Person to whom each such payment is due, which may be the Borrower in the case of reimbursement for costs of such repair or replacement theretofore paid by the Borrower; (3) the respective amounts to be paid; (4) the purpose by general classification for which each obligation to be paid was incurred; (5) that obligations in the stated amounts have been incurred by the Borrower and are presently due and payable and that each item thereof is a proper charge against the Insurance and Condemnation Proceeds Fund and has not been previously paid from the Insurance and Condemnation Proceeds Fund; and (6) that there has not been filed with or served upon the Borrower any notice of claim of lien, or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any



of the persons named in such Requisition, for which adequate security for the payment of such obligation has been posted, or which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

(d) Upon receipt of a Requisition, the Trustee will pay the amount set forth in such Requisition as directed by the terms thereof out of the Insurance and Condemnation Proceeds Fund. The Trustee may conclusively rely upon such Requisition and will have no responsibility or duty to investigate any of the matters set forth therein. The Trustee will not make any such payment if it has received any written notice of claim of lien, attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, that has not been released or will not be released simultaneously with such payment, unless adequate security for the payment of such obligation has been posted.

(e) When the repair or replacement of damaged, destroyed or taken property will have been completed, the Borrower will deliver to the Trustee a Certificate of the Borrower stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Insurance and Condemnation Proceeds Fund is to be maintained in the full amount of such claims until such dispute is resolved). Subject to the Loan Agreement, the Borrower will direct the Trustee by said Certificate of the Borrower to transfer any remaining balance in the Insurance and Condemnation Proceeds Fund, less the amount of any such retention, to the Special Redemption Account of the Redemption Fund or, at the election of the Borrower, to the Revenue Fund. Upon the disbursement of all moneys in the Insurance and Condemnation Proceeds Fund, such fund will thereafter be closed until such time as such fund is again required to be established pursuant to paragraph (b) above.

(f) As and when needed, the Trustee will establish, maintain and hold in trust a separate fund designated as the "Change In Use Fund," and administer said fund as set forth in the Loan Agreement.

(g) The Borrower may, upon a determination by the Borrower of a change in use of the Facility, deposit or cause to be deposited in the Change In Use Fund amounts necessary to redeem the Bonds in full. Subject to the Loan Agreement, the Borrower will direct the Trustee to transfer any monies in the Change In Use Fund to the Special Redemption Account of the Redemption Fund.

*Establishment and Application of the Capital Maintenance and Operating Fund.*

(a) The Trustee will establish, maintain and hold in trust a separate fund designated as the "Capital Maintenance and Operating Fund," which will be used solely for the purposes set forth in the provisions summarized under this caption "*Establishment and Application of the Capital Maintenance and Operating Fund.*"

(b) The Trustee will withdraw funds from the Capital Maintenance and Operating Fund, at the direction of the Borrower, to pay for capital maintenance, repair and replacement of the Project, 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.

(c) Moneys in the Capital Maintenance and Operating Fund to be used for the purpose described in the preceding paragraph (b) will be disbursed upon receipt of a Requisition of the Borrower for payment substantially in the form provided in the Indenture, executed by the Authorized Borrower Representative, and the Trustee will issue its checks for each such disbursement upon receipt of such a requisition.

(d) 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 interest on the Bonds.

(e) When (i) the amount of remaining principal of, and premium, if any, and interest on the Outstanding Bonds is equal to or less than the sum of the balance of the Revenue Fund, the balance of the Redemption Fund and the balance of the Capital Maintenance and Operating Fund, and (ii) all other amounts owed under the Loan Agreement and the Indenture will have been paid, moneys held in the Capital Maintenance and Operating Fund may be deposited into the Revenue Fund and credited against payments of Loan Repayments required under the Loan Agreement.

*Administrative Fees Fund.* The Trustee will establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the "Administrative Fees Fund." The Trustee will deposit into the Administrative Fees Fund amounts designated by the Borrower in writing, including such portion of the amounts received by the Trustee pursuant to the Intercept designated therefor, for the payment of Additional Payments pursuant to the Loan Agreement. Pursuant to the Borrower's written instructions, the Trustee will withdraw from the Administrative Fees Fund and pay to Trustee and the Authority the Administrative Fees and Expenses.

*Investment of Moneys in Funds and Accounts.* Except as otherwise provided in the provisions of the Indenture summarized under the caption "Defeasance—Deposit of Money or Securities with Trustee" below, all moneys in any of the funds and accounts established pursuant to the Indenture will be invested by the Trustee solely in such Eligible Securities, that are available when needed, as are specified in a Request of the Borrower, provided, however, that, if the Borrower does not file such a Request with the Trustee, the Trustee will invest to the extent practicable in investments described in clause (7) of the definition of the term "Eligible Securities" above.

All interest, profits and other income received from the investment of moneys in the Rebate Fund will be deposited when received in such fund. All interest, profits and other income received from the investment of moneys in the Project Fund will be deposited when received in such fund. To the extent amounts in the Reserve Account are less than or equal to the Reserve Account Requirement, all interest, profits and other income received from investment of moneys will be deposited when received in such fund. To the extent amounts in the Reserve Account are greater than the Reserve Account Requirement, all interest, profits and other income received from investment of moneys will be deposited in the Revenue Fund. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to the Indenture will be deposited in the Revenue Fund.

Subject to the provisions of the Indenture summarized under the caption "Defeasance—Deposit of Money or Securities with Trustee" below, investments in any and all funds and accounts established pursuant to the Indenture may be commingled for purposes of making, holding and disposing of investments, notwithstanding provisions in the Indenture for transfer to or holding in a particular fund amounts received or held by the Trustee under the Indenture, provided that the Trustee will at all times account for such investments strictly in accordance with the particular funds to which they are credited and otherwise as provided in the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment. To the extent Eligible Securities are registrable, such investments will be registered in the name of the Trustee. The Trustee may sell or present for redemption, any securities so purchased whenever it will be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such securities are credited, and the Trustee will not be liable or responsible for any loss resulting from such investment.

The Trustee is authorized, in making or disposing of any investment permitted by the provisions of the Indenture summarized under this caption "*Investment of Moneys in Funds and Accounts,*" to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account.

No float forward or forward purchase agreement or other arrangement, agreement or financial product may be utilized in connection with the Revenue Fund.

*Amounts Remaining in Funds and Accounts.* Any amounts remaining in the Revenue Fund or any other fund or account established under the Indenture after payment in full of the Bonds (or after provision for payment thereof as provided in the Indenture) and payment of the fees, charges and expenses of the Trustee and the Authority, will belong and be paid to the Borrower by the Trustee.

*Additional Payments.* The Trustee will transfer the portion of the Additional Payments constituting the Authority's annual fee, promptly upon receipt thereof from the Borrower, to the Authority at the Remittance Address.

## **Covenants**

*Punctual Payment.* The Authority will punctually pay, but only out of Payments and pledged funds as provided in the Indenture, the principal and interest to become due in respect of every Bond issued under the Indenture at the times and places and in the manner provided in the Indenture and in the Bonds, according to the true intent and meaning thereof.

*Extension of Payment of Bonds.* The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement except with the written consent of the Bondholders and, if the maturity of any of the Bonds or the time of payment of any such claims for interest will be extended without the written consent of the Bondholders, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which will not have been so extended. Nothing in this paragraph will be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance will not be deemed to constitute an extension of maturity of Bonds.

*Encumbrance Upon Payments.* The Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Payments and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

*Power to Issue Bonds and Make Pledge and Assignment.* The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Payments and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the valid and binding limited obligations of the Authority, and the Authority and Trustee will at all times, to the extent permitted by law and subject to the provisions of the Indenture, defend, preserve and protect said pledge and assignment of Payments and other assets and all the rights of the Bondholders under the Indenture against all claims and demands of all persons whomsoever.

### *Accounting Records and Financial Statements.*

(a) The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with the Trustee's accounting practices for books of record and account relating to similar trust accounts and in accordance with the customary standards of the corporate trust industry for such books of record and account, in which complete and accurate entries will be made of all transactions made by it relating to the proceeds of Bonds, the Payments, the Loan Agreement and all funds and accounts established pursuant to the Indenture. Such books of record and account will be available for inspection by the Authority, the Borrower and any Bondholder, or his agent or representative duly authorized in writing, at reasonable hours, upon reasonable notice and under reasonable circumstances.

(b) The Trustee will furnish to the Authority and the Borrower, at intervals acceptable to such parties but in any event at least quarterly, a complete financial statement (which may be in the form of its regular statements) covering receipts, disbursements, allocation and application of Payments and the proceeds of the Bonds made by the Trustee.

*Other Covenants; Amendment of the Loan Agreement.*

(a) Subject to the provisions of the Indenture, the Trustee will promptly collect all amounts due pursuant to the Loan Agreement and diligently enforce and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority under the Loan Agreement assigned to it pursuant to the Indenture.

(b) The Authority will not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee will give such written consent if but only if (i) it has received an Opinion of Bond Counsel to the effect that such amendment or modification, in and of itself, will not cause the interest on the Bonds to be included as gross income for federal income tax purposes and that such amendment or modification is permitted by the Indenture, or (ii) the Holders of a majority in aggregate principal amount of the Bonds then Outstanding consent in writing to such amendment, modification or termination, provided that no such amendment, modification or termination will reduce the amount of the Loan Repayments (except in the case of the redemption of Bonds under the redemption provisions of the Indenture or defeasance of Bonds under defeasance provisions of the Indenture), or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

*Waiver of Laws.* The Authority will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension of law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority to the extent permitted by law.

*Further Assurances.* The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Holders of the Bonds of the rights and benefits provided in the Indenture.

*Continuing Disclosure.* Pursuant to the Loan Agreement, the Borrower has undertaken all responsibility for compliance with continuing disclosure requirements, and the Authority will have no liability to the Bondholders or any other person with respect to the Securities and Exchange Commission Rule 15c2-12. Notwithstanding any other provision of the Indenture, failure of the Borrower to comply with the Continuing Disclosure Agreement will not be considered an Event of Default; however, the Trustee at the written request of the Underwriter or the Holders of at least a majority in aggregate principal amount of Outstanding Bonds, will (but only to the extent the Trustee has been tendered funds in an amount satisfactory to it or it has been otherwise indemnified from and against any loss, liability, cost or expense, including without limitation, fees and expense of its counsel and agents and additional fees and charges of the Trustee) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations under the Continuing Disclosure Agreement or, as to any Bondholder or Beneficial Owner, to cause the Borrower to comply with its obligations under the provisions of the Indenture summarized in this paragraph.

*Tax Covenants.*

(a) The Authority covenants that it will not take any action, or fail to take any action, if such action or failure to take such action would result in the interest on the Tax-Exempt Bonds not being excluded from gross income for federal income tax purposes under Section 103 of the Code. Without limiting the

generality of the foregoing, the Authority covenants that it will comply with the requirements of the Tax Certificate. This covenant will survive the payment in full or the defeasance of the Tax-Exempt Bonds.

(b) In the event that at any time the Authority is of the opinion that for purposes of the provisions summarized under this caption “*-Tax Covenants*” it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Authority will so instruct the Trustee in a Request of the Authority accompanied by a supporting Opinion of Bond Counsel, and the Trustee will take such action as may be directed in accordance with such instructions.

(c) Notwithstanding any provisions summarized under this caption “*-Tax Covenants*”, if the Authority will provide to the Trustee an Opinion of Bond Counsel to the effect that any specified action required under this paragraph is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Tax-Exempt Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the provisions of the Indenture regarding tax covenants and the Tax Certificate, and the covenants under the Indenture will be deemed to be modified to that extent.

*Intercept Covenants.* The Trustee will, on each Date on which a transfer from the Controller to the Trustee is scheduled pursuant to the Intercept Notice, notify the Authority and the Borrower of any shortfall in amounts received by the Trustee from the Controller compared to the amounts set forth in the Intercept Notice for such date. If, subsequent to any shortfall for which the Trustee has sent notice pursuant to the preceding sentence, the Trustee will receive payment of amounts sufficient to cure such shortfall, the Trustee will, within ten (10) business days thereof, notify the Authority and the Borrower of the receipt of such payment.

*Property and Deed of Trust.* Property will be released from the Deed of Trust if (a) such Property is sold or otherwise disposed of in compliance with the Loan Agreement or (b) the Bonds are subject to redemption pursuant to the redemption provisions of the Indenture. The Trustee will execute and deliver to the Borrower all releases, deeds of reconveyance or other documents as may be reasonably requested by the Borrower in connection with the release of Property from the Deed of Trust.

## **Events of Default**

*Events of Default; Waiver of Default.* If one or more of the following events (“Events of Default”) will happen, that is to say: (a) if default will be made by the Authority in the due and punctual payment of the principal of any Bond as the same will become due and payable (whether at maturity, by declaration or otherwise); (b) if default will be made by the Authority in the due and punctual payment of interest on any Bond when and as such interest will become due and payable; or (c) if default will be made by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, and such default will have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, will have been given to the Authority by the Trustee, or to the Authority, the Borrower and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding; then and in each and every such case during the continuance of such Event of Default, the provisions summarized in the following paragraphs under “*-Institution of Legal Proceedings by Trustee*” apply.

### *Institution of Legal Proceedings by Trustee.*

(a) If one or more of the Events of Default will occur, the Trustee in its discretion may, and upon the written request of the Holders of a majority in principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, the Trustee will proceed to protect or enforce its rights or the rights of the holders of Bonds under the Indenture, the Loan Agreement and the Deed of Trust, by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Indenture or therein, or in aid of the execution of any power in the Indenture or therein granted, or by

mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee will deem most effectual in support of any of its rights or duties under the Indenture, provided that any such request from the Bondholders will not be in conflict with any rule of law or with the Indenture, expose the Trustee to personal liability or be unduly prejudicial to Bondholders not joining therein.

(b) Notwithstanding anything to the contrary in the Indenture, the Authority will have no obligation to, and instead the Trustee may, without further direction from the Authority, take any and all steps, actions and proceedings, to enforce any or all rights of the Authority (other than those specifically retained by the Authority pursuant the provisions of the Indenture summarized under the caption “Pledge and Assignment–Pledge and Assignment”) under the Indenture or the Loan Agreement, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the Borrower under the Loan Agreement.

*Application of Moneys Collected by Trustee.* Any moneys collected by the Trustee pursuant to the provisions of the Indenture summarized under the caption “–Institution of Legal Proceedings Above” above and any other amounts then held by the Trustee under the Indenture, will be applied in the following order, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal upon presentation of the Bonds, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: To the payment of costs and expenses of collection and reasonable compensation to the Trustee for its own services and for the services of counsel, agents and employees by it properly engaged and employed, and all other expenses and liabilities incurred, and for advances, together with interest on such advances at a rate per annum equal to the Bond yield plus two percent, made pursuant to the provisions of the Indenture.

Second: In case the principal of any of the Bonds will have become due by declaration or otherwise and remains unpaid, first to the payment of interest in default, and then to the payment of the principal of all Bonds then due and unpaid, in every instance such payment to be made ratably to the persons entitled thereto without discrimination or preference.

Whenever moneys are to be applied pursuant to the provisions of the Indenture summarized under this caption “–Application of Moneys Collected by Trustee,” such moneys will be applied at such times, and from time to time, as the Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee will apply such funds, it will fix the date (which will be the Interest Payment Date unless the Trustee will deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and past-due interest to be paid on such date will cease to accrue.

Whenever all principal of and interest on all Bonds have been paid under the provisions of the Indenture summarized under this caption “–Application of Moneys Collected by Trustee,” and all fees, expenses and charges of the Trustee (including without limitation those of its attorneys) have been paid, any balance remaining in the funds and accounts under the Indenture will be paid to the Borrower.

*Effect of Delay or Omission to Pursue Remedy.* No delay or omission of the Trustee or of any Holder of Bonds to exercise any right or power arising from any default will impair any such right or power or will be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given by the provisions of the Indenture governing Events of Default to the Trustee or to the Holders of Bonds may be exercised from time to time, and as often as will be deemed expedient. In case the Trustee will have proceeded to enforce any right under the Indenture, and such proceedings will have been discontinued or abandoned because of waiver or for any other reason, or will have been determined adversely to the Trustee, then and in every such case the Authority and the Trustee, and the Holders of the Bonds, severally and respectively, will be restored to their former positions and rights under the Indenture in respect to the trust estate; and all

remedies, rights and powers of the Authority, the Trustee and the Holders of the Bonds will continue as though no such proceedings had been taken.

*Remedies Cumulative.* No remedy in the Indenture conferred upon or reserved to the Trustee or to any Holder of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy will be cumulative and will be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity.

*Covenant to Pay Bonds in Event of Default.* The Authority covenants that, upon the happening of any Event of Default, the Authority will pay, but only out of Payments, to the Trustee, upon demand, for the benefit of the Holders of the Bonds, the whole amount then due and payable thereon (by declaration or otherwise) for interest and principal as the case may be, and all other sums which may be due under the Indenture or secured by the Indenture, including reasonable compensation to the Trustee and its agents and counsel and any expenses or liabilities incurred by the Trustee under the Indenture and, its agents and counsel. In case the Authority will fail to pay the same forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, will be entitled to institute proceedings at law or in equity in any court of competent jurisdiction to recover judgment for the whole amount due and unpaid, together with costs and reasonable attorneys' fees, subject, however, to the condition that such judgment, if any, will be limited to, and payable solely out of, Payments as provided in the Indenture and not otherwise. The Trustee will be entitled to recover such judgment as aforesaid, either before or after or during the pendency of any proceedings for the enforcement of the Indenture, and the right of the Trustee to recover such judgment will not be affected by the exercise of any other right, power or remedy for the enforcement of the provisions of the Indenture.

*Trustee Appointed Agent for Bondholders.* The Trustee is appointed the agent and attorney-in-fact of the Holders of all Bonds Outstanding under the Indenture for the purpose of filing any claims relating to the Bonds.

*Power of Trustee to Control Proceedings.* Subject to the immediately following paragraph, in the event that the Trustee, upon the happening of an Event of Default, will have taken some action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, it will have full power, in the exercise of its discretion for the best interests of the Holders of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee will not, unless there no longer continues an Event of Default under the Indenture, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Holders of at least a majority in aggregate principal amount of the Bonds Outstanding under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

*Limitation on Bondholders' Right to Sue.* Notwithstanding any other provision of the Indenture, no Holder of any Bond issued under the Indenture will have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Holder will have previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture; (b) the Holders of at least a majority in aggregate principal amount of all the Bonds then Outstanding will have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Holders will have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee will have refused or omitted to comply with such request for a period of sixty (60) days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture; it being understood and intended that no one or more Holders of Bonds will have any right in any manner whatever by



his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture will be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Holders of the Outstanding Bonds.

The right of any Holder of any Bond to receive payment of the principal of and interest on such Bond out of Payments and the funds pledged in the Indenture, as therein provided, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, will not be impaired or affected without the consent of such Holder, notwithstanding any other provision of the Indenture.

## **The Trustee**

### *Duties, Immunities and Liabilities of Trustee.*

(a) The Trustee will, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture. The Trustee will, during the existence of any Event of Default which has not been cured, exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) The Authority may remove the Trustee at any time unless an Event of Default will have occurred and then be continuing, and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee will cease to be eligible in accordance with paragraph (e) below, or will become incapable of acting, or will be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property will be appointed, or any public officer will take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon will appoint, with the written consent of the Borrower, a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Authority, and by giving the Bondholders notice of such resignation by mail at the addresses shown on the Bond registration books maintained by the Trustee. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee will have been appointed and have accepted appointment within forty five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of himself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Request of the Authority or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and conveying to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to



the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Authority will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the successor Trustee, at the expense of the Borrower, will mail a notice of the succession of such Trustee to the trusts under the Indenture to the Bondholders at the addresses shown on the Bond registration books maintained by the Trustee.

(e) Any Trustee appointed under the provisions of the Indenture will be a trust, national banking association, or banking institution having trust powers, doing business and having a principal corporate trust office in California or, if it will not have a principal corporate trust office in California, having the power under California law to perform all the duties of the Trustee under the Indenture as evidenced by an opinion of its counsel, having, or if it is a member of a bank holding company system its parent will have, a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and subject to supervision or examination by State or federal authorities. In case at any time the Trustee will cease to be eligible in accordance with the provisions of this paragraph (e), the Trustee will resign immediately in the manner and with the effect specified in the Indenture.

*Merger or Consolidation.* Any company into which any successor Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any company to which the successor Trustee, if any, may sell or transfer all or substantially all of its corporate trust business, provided such company will be eligible under the immediately preceding paragraph (e), will be the successor to such successor Trustee without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

*Rights of Trustee.*

(a) The recitals of facts in the Indenture and in the Bonds contained will be taken as statements of the Authority, and the Trustee does not assume any responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture, the Loan Agreement or the Bonds, or incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct.

(b) The Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer, unless it will be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture. The permissive right of the Trustee to do things enumerated in the Indenture will not be construed as a duty.

(d) The Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of the Indenture unless such Bondholders will have offered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities which may be incurred therein or thereby.

(e) The Trustee will not be deemed to have knowledge of any Event of Default other than an Event of Default under the Indenture in connection with principal and interest payments of any Bond unless and until it will have actual knowledge thereof, or will have received written notice thereof, at its Principal

Corporate Trust Office. Except as otherwise expressly provided in the Indenture, the Trustee will not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Indenture or of any of the documents executed in connection with the Bonds or as to the existence of an Event of Default under the Indenture.

(f) No provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of its rights or powers. The Trustee has no obligation or liability to the Bondholders for the payment of interest or principal with respect to the Bonds.

(g) The Trustee will not be bound to ascertain or inquire as to the validity or genuineness of any collateral given to or held by it. The Trustee will not be responsible for the recording or filing of any document relating to the Indenture or of financing statements (or continuation statements in connection therewith) or of any supplemental instruments or documents of further assurance as may be required by law in order to perfect the security interests in any collateral given to or held by it.

(h) The Trustee will not be concerned with or accountable to anyone for the subsequent use or application of any moneys which will be released or withdrawn in accordance with the provisions of the Indenture.

*Right of Trustee to Rely on Documents.* The Trustee will be protected in acting upon any notice, requisition, resolution, request, consent, order, certificate, report, opinion, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee will not be bound to recognize any person as the Holder of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto is satisfactorily established, if disputed.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Certificate of the Authority, and such Certificate will be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

*Preservation and Inspection of Documents.* All documents received by the Trustee under the provisions of the Indenture will be retained in its possession and will be subject at all reasonable times to the inspection of the Authority and any Bondholder, and their agents and representatives duly authorized in writing, at reasonable hours, upon reasonable notice and under reasonable conditions.

*Compensation and Indemnification of Trustee.* The Authority covenants and agrees to indemnify the Trustee (solely from Payments received from the Borrower for such purpose) against any loss, expense and liability (other than those which are due to the Trustee's negligence or willful misconduct) which it may incur arising out of or in the exercise and performance of its powers and duties under the Indenture, including the costs and expenses of defending against any claim of liability. The obligations of the Authority summarized in this paragraph will survive resignation or removal of the Trustee under the Indenture and payment of the Bonds and discharge of the Indenture.

## **Modification of the Indenture**

*Modification without Consent of Bondholders.* Subject to the conditions and restrictions contained in the Indenture, the Authority and the Trustee, from time to time and at any time, may enter into an indenture or indentures supplemental thereto, which indenture or indentures thereafter will form a part of the Indenture, including, without limitation, for one or more of the following purposes, provided that the Authority and the Trustee will have received an Opinion of Bond Counsel to the effect that such amendment or modification 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 the Trustee will have received a written representation from the Authority to the effect that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds (which written representation may be based on representations of other parties in accordance with the provisions of the Indenture); provided that, if an Event of Default has occurred and is continuing, the Trustee rather than the Authority will make a determination that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds (provided that, in making such determination, the Trustee may conclusively rely on written representations of financial consultants or advisors or the opinion or advice of counsel):

(a) to add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for the Bonds, or to surrender any right or power reserved to or conferred upon the Authority in the Indenture;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision, contained in the Indenture, or in regard to such matters or questions arising under the Indenture as the Authority may deem necessary or desirable and not inconsistent with other provisions of the Indenture;

(c) to modify, amend or supplement the Indenture or any indenture supplemental thereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and, if they so determine, to add to the Indenture or any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939, as amended, or similar federal statute; or

(d) in connection with an amendment of the Loan Agreement permitted by the Indenture for the purpose of conforming the terms, conditions and covenants of the Indenture to the corresponding or related provisions of such amended Loan Agreement.

Any supplemental indenture authorized by the provisions summarized above may be executed by the Authority and the Trustee without the consent of the Holders of any of the Bonds at the time Outstanding, notwithstanding any of the provisions of the Indenture summarized under the caption "*Modification with Consent of Bondholders*" below, but the Trustee will not be obligated to enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

The Trustee will deliver an executed copy of a supplemental indenture authorized by the provisions of the Indenture summarized above and any document related thereto or executed in connection therewith to the Borrower and each Rating Agency then rating the Bonds promptly after execution by the Authority and the Trustee. The Authority will deliver drafts of any such documents to such parties prior to execution thereof.

*Modification with Consent of Bondholders.* With the consent of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding), the Authority and the Trustee may from time to time and at any time, with an Opinion of Bond Counsel to the effect that such amendment or modification 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, enter into an indenture or indentures supplemental to the Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the

Indenture or of any supplemental indenture; provided, however, that no such supplemental indenture will (1) extend the fixed maturity of any Bonds or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof or (2) reduce the aforesaid percentage of Holders of Bonds whose consent is required for the execution of such supplemental indentures or extend the time of payment or permit the creation of any lien on the Payments or the assets pledged in the Indenture prior to or on a parity with the lien of the Indenture or deprive the Holders of the Bonds of the lien created by the Indenture upon the Payments or the assets pledged in the Indenture, without the consent of the Holders of all the Bonds then Outstanding. Upon receipt by the Trustee of a Certificate of the Authority authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Bondholders, as aforesaid, the Trustee will join with the Authority in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its discretion, but will not be obligated to, enter into such supplemental indenture.

It will not be necessary for the consent of the Bondholders under the provisions of the Indenture summarized under this caption "*-Modification with Consent of Bondholders*" to approve the particular form of any proposed supplemental indenture, but it will be sufficient if such consent will approve the substance thereof.

Promptly after the execution by the Authority and the Trustee of any supplemental indenture pursuant to under the provisions of the Indenture summarized under this caption "*-Modification with Consent of Bondholders*", the Trustee, at the expense of the Borrower, will deliver a notice, setting forth in general terms the substance of such supplemental indenture, to the Borrower and the Bondholders at the addresses shown on the Bond registration books maintained by the Trustee. Any failure of the Trustee to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such supplemental indenture.

The Trustee will deliver an executed copy of such supplemental indenture and any amendment of the Loan Agreement in accordance with the Indenture to the Borrower and each Rating Agency then rating the Bonds promptly after execution by the Authority, the Trustee, and the Borrower. The Authority will deliver drafts of any such documents to such parties prior to execution thereof.

*Effect of Supplemental Indenture.* Upon the execution of any supplemental indenture pursuant to the provisions of the Indenture will be, and will be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Holders of Outstanding Bonds will thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture will be part of the terms and conditions of the Indenture for any and all purposes.

*Opinion of Counsel as to Supplemental Indenture.* Subject to the provisions of the Indenture summarized above under the caption "*The Trustee-Right of Trustee to Rely on Documents*" of the Indenture and the requirement described above under the captions "*-Modification without Consent of Bondholders*" and "*-Modification with Consent of Bondholders*" for an Opinion of Bond Counsel, the Trustee and the Authority may receive an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to the provisions of the Indenture complies with the requirements of the Indenture and will have no liability to Holders in executing any Supplemental Indenture in reliance upon an Opinion of Bond Counsel.

*Notation of Modification on Bonds; Preparation of New Bonds.* Bonds authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of the Indenture may bear a notation, in form approved by the Authority, as to any matter provided for in such supplemental indenture, and if such supplemental indenture will so provide, new Bonds, so modified as to conform, in the opinion of the Authority, to any modification of the Indenture contained in any such supplemental indenture, may be prepared by the Authority, authenticated by the Trustee and delivered without cost to the Holders of the Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amounts.

## 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: (i) 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; (ii) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in “–*Deposit of Money or Securities with Trustee*” below) to pay or redeem Bonds Outstanding; or (iii) by delivering to the Trustee, for cancellation by it, all Bonds Outstanding.

If the Borrower will pay or cause to be paid all Bonds then Outstanding as provided above and will also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Borrower (evidenced by a Certificate of the Borrower, filed with the Trustee, signifying the intention of the Borrower to discharge all such indebtedness and the Indenture), 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 only as provided in the immediately following paragraph. 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 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 and the Authority.

*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 (as provided in “–*Deposit of Money or Securities with Trustee*” below) 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*” below 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.

#### **Miscellaneous**

*Evidence of Rights of Bondholders.* Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and of the Authority if made in the manner provided in this paragraph.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds will be proved by the bond registration books held by the Trustee.

Any request, consent, or other instrument or writing of the Holder of any Bond will bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

*Disqualified Bonds.* In determining whether the Holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are owned or held by or for the account of the Authority or the Borrower or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the Borrower will be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this paragraph if the pledgee will establish to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the Borrower. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee.

***Waiver of Personal Liability.*** No member, officer, agent or employee of the Authority will be individually or personally liable for the payment of the principal (or redemption price) of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture will relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

***Governing Law; Venue.*** The Indenture will be construed in accordance with and governed by the laws of the State applicable to contracts made and performed in the State. The Indenture will be enforceable in the State, and any action arising out of the Indenture will (unless waived by the Authority in writing) be filed and maintained in Sacramento County Superior Court, Sacramento County, California.

## SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The Loan Agreement provides for, among other things, the loan of the Bond proceeds by the Authority to the Borrower, certain covenants of the Borrower relating to the loan and of the Project, including repayment of the loan, and defines events of default and remedies therefor.

Certain provisions of the Loan Agreement are set forth in this Official Statement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" and "CERTAIN FINANCIAL COVENANTS OF THE BORROWER." Certain provisions of the Loan Agreement are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.

### **Loan Financing; Loan Repayment; Indemnification**

*Agreement to Issue Bonds and Application of Bond Proceeds.* In order to provide funds for the Loan and for the other purposes set forth in the Indenture, the Authority, concurrently with the execution of the Loan Agreement, will issue, sell and deliver the Bonds and direct the proceeds thereof to be deposited with the Trustee and applied as provided in the Indenture. The Authority and the Borrower agree that the proceeds of the Bonds will be applied solely in accordance with the Indenture.

#### *The Loan; Loan Repayments; Additional Payments.*

(a) The Loan. The Authority agrees, upon the terms and conditions specified in the Loan Agreement, to loan to the Borrower that portion of the proceeds received by the Authority from the sale of the Bonds, as set forth in the Indenture by causing such proceeds to be deposited with the Trustee for disposition as provided in the Loan Agreement and in the Indenture. The obligation of the Authority to make the Loan is limited solely to such sale proceeds of the Bonds received by the Authority and will be deemed fully discharged upon the deposit of the proceeds of the Bonds with the Trustee.

(b) Loan Repayments. The Gross Revenues of the Borrower will be used to pay, among other things, the following amounts (which collectively constitute the "Loan Repayments"):

(i) until such time as the principal of and interest on the Bonds will have been paid in full, or provisions made for such full payment in accordance with the provisions of the Indenture, an amount equal to the aggregate amount of interest payable by the Authority on the Outstanding Bonds, at the applicable interest rate, on the next succeeding Interest Payment Date (subject to pro rata adjustment for payments prior to the first Interest Payment Date) in accordance with the provisions of the Indenture;

(ii) until such time as the principal of and interest on the Bonds will have been paid in full, or provisions made for such full payment in accordance with the provisions of the Indenture, an amount equal to that portion of the principal amount of the Bonds payable by the Authority or such amount as necessary for the accumulation of funds necessary to pay the principal of the Bonds at maturity in accordance with the provisions of the Indenture;

(iii) on or before any redemption date, such amounts as will, together with any other money available therefor, be sufficient to pay all amounts, if any, required to redeem the Bonds pursuant to the provisions of the Indenture, including any related redemption premium; and

(iv) after any withdrawal from or notification of a deficiency in the Reserve Account pursuant to the Indenture, such amounts as will, together with any other money available therefor, be sufficient to pay all amounts, if any, required to replenish the Reserve Account in accordance with the Indenture.

A schedule of expected monthly Loan Repayments is set forth in the Loan Agreement.



The Loan Repayments and all other amounts provided in this caption “*–The Loan; Loan Repayments; Additional Payments,*” will be payable in such lawful money of the United States of America as at the time of payment will be legal tender for the payment of public and private debts. All deposits under the Loan Agreement will be made at the corporate trust office of the Trustee, or at such other location as will be designated in writing by the Trustee to the Borrower.

The Borrower will pay, or cause to be paid, the Loan Repayments from the Gross Revenues of the Borrower or from any other legally available funds of the Borrower, without any further notice thereof except as may be specifically required by the provisions of the Loan Agreement summarized under this caption “*–The Loan; Loan Repayments; Additional Payments*”. The Loan Repayments payable by the Borrower under the Loan Agreement are expected to be equal in the aggregate to an amount which, together with other funds in the Revenue Fund then available for the payment of principal and interest on the Bonds, will be sufficient to provide for the payment in full of the interest on, premium, if any, and principal of the Bonds as the same become due and payable.

(c) Intercept. Simultaneously with the execution and delivery of the Bonds, the Borrower will deliver the Intercept Notice to the State Controller.

The Intercept Notice must at all times provide for transfers at such times and in such amounts as are timely and sufficient to pay in full all principal of and interest on the Bonds as they come due and to cure any delinquency in payment of such amounts.

The Borrower will, not later than the twentieth (20th) calendar day of any month in which any payment under the Loan Agreement is scheduled, amend, supplement or restate the Intercept Notice and deliver such to the State Controller from time to time as necessary or appropriate to indicate sufficient transfers to the Trustee to pay all principal of and interest on the Bonds and other costs necessary or incidental to the financing pursuant to the Act relating to the Bonds as they come due and to cure any delinquency in payment of such amounts. The Borrower will cooperate with the Trustee in any manner the Trustee may request in connection with amending, supplementing or restating the Intercept Notice. If at any time the Intercept Notice is amended, supplemented or restated for any reason, the Borrower will promptly provide the Authority and the Trustee with a copy of such amended, supplemented or restated Intercept Notice. The Intercept Notice may provide additional amounts payable to the Trustee for purposes set forth in the Indenture; provided the Borrower will not grant preference or any prior right of funding access or security in respect of any payment indicated in the Intercept Notice or any other notice delivered pursuant to Section 17199.4 of the Education Code.

All deposits of moneys derived from the Intercept under the Loan Agreement will be made at the corporate trust office of the Trustee set forth in the Intercept Notice. The Borrower will timely amend, supplement or restate the Intercept Notice to require transfers to such other location as will be designated in writing by the Trustee to the Borrower.

(d) Additional Payments. In addition to the Loan Repayments, the Borrower will also pay to the Authority or to the Trustee, as the case may be, “Additional Payments,” as follows:

(i) All taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated by the Loan Agreement (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Trustee and taxes based upon or measured by the net income of the Trustee; provided, however, that the Borrower will have the right to protest any such taxes or assessments and to require the Authority or the Trustee, at the Borrower’s expense, to protest and contest any such taxes or assessments levied upon them and that the Borrower will have the right to withhold payment of any such taxes or

assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Authority or the Trustee;

(ii) All Administrative Fees and Expenses of the Trustee for services rendered under the Indenture and all amounts referred to in the provisions of the Indenture summarized under the caption “*Compensation and Indemnification of Trustee*” above, as and when the same become due and payable;

(iii) The Administrative Fees and Expenses of the Authority or any agent or attorney selected by the Authority to act on its behalf in connection with the Loan Agreement, the other Borrower Documents, the Bonds or the Indenture, including, without limitation, the annual fee of the Authority, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds or in connection with any litigation, investigation, inquiry or other proceeding which may at any time be instituted involving the Loan Agreement, the other Borrower Documents, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connection with the reasonable supervision or inspection of the Borrower, its properties, assets or operations or otherwise in connection with the administration of the Loan Agreement and the other Borrower Documents;

(iv) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Loan Agreement, the other Borrower Documents or the Indenture;

(v) All fees and expenses of the Rating Agency and the Rebate Analyst, and if a deposit is required to be made to the Rebate Fund as a result of any calculation made pursuant to the provisions of the Indenture, the amount of such deposit, which will be deposited in the Rebate Fund not later than the tenth day of the calendar month immediately following the date on which such calculation was made pursuant to the provisions of the Indenture;

(vi) Deposits to the Capital Maintenance and Operating Fund in an amount equal to the result of the calculation provided in the Indenture; and

(vii) The annual fee of the Authority and the reasonable fees and expenses of the Authority or any agent or attorney selected by the Authority to act on its behalf in connection with the Loan Agreement, the other Borrower Documents, the Bonds or the Indenture, including, without limitation, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds or in connection with any litigation, investigation, inquiry or other proceeding which may at any time be instituted involving the Loan Agreement, the other Borrower Documents, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connection with the reasonable supervision or inspection of the Borrower, its properties, assets or operations or otherwise in connection with the administration of the Loan Agreement and the other Borrower Documents.

All such payments will be made by the Borrower from legally available funds of the Borrower, for payment to the Person or Persons entitled to such payments or for deposit to the appropriate fund or account held by the Trustee under the Indenture.

Such Additional Payments will be billed to the Borrower by the Authority, the Rating Agency, the Rebate Analyst or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Authority or the Trustee for one or more of the above items. After such a demand, amounts so billed will be paid by the Borrower within fifteen (15) days after receipt of the bill by the Borrower.

The Authority's annual fee will be paid by the Borrower to the Trustee on a pro rata basis (i.e., the annual fee will be divided by the number of payments to be made during each annual period based on the

number of interest payments), due and payable in arrears, on each respective Interest Payment Date (deeming, for purposes of calculating the pro rata fee to be paid, any principal to be paid on or as of such Interest Payment Date as no longer Outstanding) and will be made as an Additional Payment in accordance with the provisions of the Loan Agreement summarized under this caption "*The Loan; Loan Repayments; Additional Payments*" and the Indenture.

(e) **Failure to Make Payments.** In the event the Borrower will fail to deposit, or fail to cause to be deposited, with the Trustee any Loan Repayments as required by the provisions of the Loan Agreement summarized under this caption "*The Loan; Loan Repayments; Additional Payments*", the Loan Repayments or other payments required under the Loan Agreement not paid from legally available funds of the Borrower will continue as an obligation under the Loan Agreement of the Borrower until the amount in default will have been fully paid.

(f) **Obligations of Borrower Unconditional.** The obligations of the Borrower to make the Loan Repayments and Additional Payments as required in the Loan Agreement and to perform and observe any and all of the other covenants and agreements on its part contained in the Loan Agreement, will be absolute and unconditional irrespective of any defense or any rights of setoff, recoupment, or counterclaim which the Borrower may otherwise have against the Authority. The Borrower will not: (1) suspend, discontinue, or abate any payment required by the provisions of the Loan Agreement summarized in this paragraph (except as provided in the Loan Agreement); (2) fail to observe any of its other covenants or agreements in the Loan Agreement; or (3) terminate the Loan Agreement for any cause whatsoever (except as provided with prepayment of the Loan under the Loan Agreement), including without limiting the generality of the foregoing, any declaration or finding that the Bonds, the Indenture, or any portion of the Loan Agreement are invalid or unenforceable, and, any failure of the Authority to perform and observe any agreement, whether expressed or implied, or any duty, liability, or obligation, arising out of or in connection with the Loan Agreement or otherwise.

Notwithstanding anything in the Loan Agreement to the contrary, the liability of the Borrower under the Loan Agreement to any person or entity, including, but not limited to, the Trustee or the Authority and their successors and assigns, is limited to the Gross Revenues and the amounts held in the funds and accounts created under the Indenture or the Loan Agreement, and such persons and entities will look exclusively thereto, or to such other security as may from time to time be given for the payment of obligations arising out of the Loan Agreement or any other agreement securing the obligations of the Borrower with respect to the Loan or the Bonds, including the Deed of Trust.

*Deed of Trust; Assignment of Authority's Rights.*

(a) To secure the payment of the Loan Repayments and Additional Payments, and the performance by the Borrower of its other obligations under the Loan Agreement, the Borrower pledges and grants to the Authority a Lien on and security interest in the Gross Revenues, subject only to Permitted Liens. The Borrower will execute and cause to be filed any Uniform Commercial Code financing statements, and will execute and deliver such other documents (including, but not limited to, continuation statements) as may be necessary or reasonably requested by the Trustee in order to perfect or maintain as perfected such security interest or give public notice thereof.

(b) To secure the payment of Loan Repayments and Additional Payments and the performance by the Borrower of its other obligations under the Loan Agreement, the Borrower has entered into a Deed of Trust, which the Borrower agrees will be recorded in the office of the County Recorder of San Diego County on or prior to the Effective Date. The Borrower agrees, as long as any of the Loan Repayments or Additional Payments (other than Additional Payments to the Authority) remain unpaid, to supplement the Deed of Trust or to execute and deliver such other deeds of trust in substantially the form of the Deed of Trust as may be necessary from time to time to grant the Trustee a first priority Lien on the Facility, subject to Permitted Liens. The Borrower will obtain, at its own cost and expense, an ALTA policy of title insurance, or an endorsement

to such policy at the time of and dated as of the date of acquisition of the real property underlying the Project with a portion of the proceeds of the Bonds, in an aggregate amount not less than the aggregate principal amount 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. The Borrower will execute and cause to be filed Uniform Commercial Code financing statements, and will execute and deliver such other documents (including, but not limited to, continuation statements) as may be necessary or reasonably requested by the Authority or the Trustee in order to perfect or maintain as perfected such security interest or give public notice thereof.

(c) As security for the payment of the Bonds, the Authority in the Indenture assigns to the Trustee certain of the Authority's rights under the Loan Agreement, including the right to receive payments under the Loan Agreement, but excluding its Retained Rights; and the Borrower assents to such assignment as set forth in the Indenture and agrees to make payments from Gross Revenues or other funds of the Borrower directly to the Trustee, without defense or set off by reason of any dispute among the Borrower and the Authority or the Trustee. By virtue of such assignment and certain obligations of the Borrower to the Trustee, the Trustee will be a third party beneficiary of the Loan Agreement and will have the right to enforce the obligations of the Borrower under the Loan Agreement, subject to the limitations thereof.

#### **Maintenance, Taxes, Insurance and Condemnation, Change in Use**

*Maintenance and Operation of the Facility.* The Borrower will maintain the Facility in accordance in all material respects with all governmental laws, ordinances, approvals, rules, regulations and requirements including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon the Borrower. The Borrower will maintain and operate the Facility and all engines, boilers, pumps, machinery, apparatus, fixtures, fittings and equipment of any kind in or that will be placed in any building or structure now or hereafter at any time constituting part of the Facility which are material to the operation of the Facility in good repair, working order and condition, and will from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements so that the efficiency and value of the Facility will not be materially adversely impaired.

*Taxes, Assessments, Other Governmental Charges and Utility Charges.* The Borrower will pay and discharge all taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become liens upon the Facility or the interest therein of the Authority, the Trustee or the Holders of the Bonds, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Facility or any part thereof, and, upon request, will furnish to the Authority or Trustee receipts for all such payments, or other evidences satisfactory to the Authority and the Trustee; provided, however, that the Borrower will not be required to pay any tax, assessment, rate or charge as provided in the Loan Agreement as long as it will in good faith contest the validity thereof, provided that the Borrower will have set aside reserves with respect thereto that, in the opinion of the governing body of the Borrower, are adequate.

#### *Insurance Required.*

(a) The Borrower covenants and agrees that it will keep (or cause to be kept) insurance (including builder's all-risk insurance) against loss or damage to any structure constituting any part of the Facility by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. All insurance provided pursuant to this paragraph will be in an amount equal to the lesser of (i) one hundred percent (100%) of the replacement cost (without deduction for depreciation) of all buildings, structures and fixtures constituting any part of the Facility, or (ii) the principal amount of the Bonds then Outstanding, and will be subject to a deductible not to exceed \$100,000.

(b) The Borrower covenants and agrees to procure and maintain, throughout the term of the Loan Agreement, business interruption insurance to cover loss, total or partial, of the use of any structures constituting any part of the Facility as the result of any of the hazards covered by the insurance required by paragraph (a) above, in an amount sufficient to pay the maximum Loan Repayments under the Loan Agreement for a period of at least twelve (12) months.

(c) The Borrower will procure and maintain or cause to be procured and maintained continuously in effect with respect to the Facility comprehensive general accident and public liability insurance covering any liability arising out of or in any way relating to the maintenance, use or operation of the Facility or any part thereof, under which the Borrower and the Trustee are named as insureds, in an amount not less than \$1,000,000 for bodily injury or death per occurrence and \$1,000,000 for property damage per occurrence and the aggregate combined limits of not less than \$2,000,000 and will cause all contractors to maintain similar insurance against all similar liabilities on their part.

(d) The insurance required to be maintained pursuant to paragraph (c) above may include alternative risk management programs, including adequate self-insurance. A self-insurance program will be considered to be adequate if the Borrower is required under the program to deposit and maintain in a separate trust account, established for such purpose with a financial institution having trust powers, money in an amount sufficient, in the opinion of an independent consulting actuary, to pay claims up to the amount of the Borrower's retained liability and to pay anticipated claims expense; and

(i) The Borrower has received a report from its consulting actuary concerning the program, including the Borrower's obligation to deposit money into the trust as required and such report has been filed with the Authority (if requested by the Authority) and the Trustee; the actuary must be a fellow in the Society of Actuaries; and

(ii) The program provides for the administration and payment of claims to the extent of the Borrower's retained liability; and

(iii) The program requires that the self-insurance plan be reviewed at least annually by an independent consulting actuary to determine the required amount of additional deposits into the trust or those amounts which the Borrower may withdraw from the trust and that a copy of the consulting actuary's annual review will be filed with the Authority (if requested by the Authority) and the Trustee; and

(iv) The program requires that the Borrower purchase and maintain in effect excess coverage sufficient in amount so that the Borrower's retained liability and other excess coverage equals the minimum amount of coverage required under the Loan Agreement for the type of coverage as to which the Borrower intend to act or is acting as a self-insurer.

(e) The Borrower will consult with an insurance consultant to review the insurance requirements of the Borrower with respect to the Facility from time to time (but not less frequently than once every three years) commencing no later than June 30, 2014. If such review indicates that the Borrower should increase any of the coverages required by the Loan Agreement, the Borrower will review such recommendation with the governing body of the Borrower and will increase such coverage; provided, however, that such coverage is available from reputable insurance companies at a reasonable cost on the open market.

(f) The Borrower will obtain and maintain cause to be obtained and maintained during the term of the Loan Agreement such other insurance policies covering such other risks and in such amounts as the insurance broker or insurance consultant engaged pursuant to paragraph (e) above states are customarily maintained by educational institutions similar to the Borrower in the ordinary course of their business.

(g) The Borrower covenants that it will use its best efforts to apply for any grants, loans or other relief available from the State or federal government to obtain amounts necessary to rebuild any portion of the

Facility destroyed or damaged in connection with an uninsured or underinsured calamity causing destruction or damage; provided, however, that the Borrower will not be required to accept such amounts if doing so would jeopardize the integrity of the Borrower's programs.

*Workers' Disability Compensation Act.* The Borrower will at all times comply with the Workers' Disability Compensation Act of the State, or any successor statute or statutes.

*Insurers; Policy Forms and Loss Payees.* The insurance policies required by the Loan Agreement will be carried by insurance companies which are financially responsible and capable of fulfilling the requirements of such policies. All such policies (except liability policies) will name the Borrower and the Trustee and the Authority as insured parties, beneficiaries or loss payees as their interest may appear. Each policy will be in such form and contain such provisions as are generally considered standard for the type of insurance involved and will contain a provision to the effect that the insurer will not cancel or substantially modify the policy provisions without first giving at least thirty (30) days' written notice thereof to the Borrower, the Authority and the Trustee. In lieu of separate policies, the Borrower may maintain blanket policies which cover any one or more risks required to be insured against so long as the minimum coverages required in the Loan Agreement are met.

*Disposition of Insurance and Condemnation Proceeds.*

(a) All proceeds of the insurance carried pursuant to paragraph (a) under "*Insurance Required*" above (except proceeds of the liability portion, if any, of such insurance), and proceeds of any condemnation awards with respect to the Facility, in each case, in excess of ten percent (10%) of the Book Value of the Facility will be paid immediately upon receipt by the Borrower or other named insured parties to the Trustee for deposit in a special fund which the Trustee will establish and maintain and hold in trust pursuant to the Indenture, to be known as the "Insurance and Condemnation Proceeds Fund." In the event that the proceeds of any loss or damage to or condemnation of the Facility will be less than ten percent (10%) of the Book Value of the portion or portions of the Facility, the Borrower may retain such proceeds without any formality whatsoever. In the event the Borrower elects to repair or replace the portion or portions of the Facility damaged, destroyed or taken, moneys in the Insurance and Condemnation Proceeds Fund will be disbursed by the Trustee, after deducting therefrom the reasonable charges and expenses of the Trustee in connection with the collection and disbursement of such moneys, for the purpose of repairing or replacing the Facility damaged, destroyed or taken in the manner and subject to the conditions set forth in the Indenture with respect to disbursements from the Insurance and Condemnation Proceeds Fund.

(b) If the Borrower will elect not to, or cannot, repair or replace the portion or portions of the Facility damaged, destroyed or taken, as provided in paragraph (a) above, subject to paragraph (c) below, the Trustee will transfer all amounts in the Insurance and Condemnation Proceeds Fund on account of such damage, destruction or condemnation to the Special Redemption Account established in the Indenture.

(c) If all amounts in the Insurance and Condemnation Proceeds Fund exceed ten percent (10%) of the Book Value of the Facility, but are not sufficient to retire all Bonds then Outstanding, the Trustee will not transfer said amounts to the Special Redemption Account unless the Borrower will file with the Trustee a report of an Independent Consultant showing that Gross Revenues are projected to be at least equal to Debt Service on all Bonds for each of the three full Fiscal Years immediately following such transfer after giving effect to the retirement of such Bonds. In the event such report of a Consultant shows that projected Gross Revenues will not be sufficient to pay Debt Service on all Bonds for each of the three full Fiscal Years immediately following such transfer after giving effect to the retirement of such Bonds, the Borrower will apply all amounts in the Insurance and Condemnation Proceeds Fund to the repair or replacement of the portion or portions of the Facility damaged, destroyed or taken, as provided in paragraph (a) above, unless the Borrower will file a further report of a Consultant showing that even after making such repair and replacement, Gross Revenues are not projected to be at least equal to Debt Service on all Bonds for each of the three Fiscal

Years immediately following such repair and replacement, in which event, the Trustee will transfer all moneys in the Insurance and Condemnation Proceeds Fund as provided in paragraph (b) above.

*Ownership of Project.* The Borrower agrees that it will own the Project during the term of the Loan Agreement, except that the Borrower may dispose of any component of the Project if the age of such component exceeds the useful life of such component.

#### **Additional Covenants and Agreement of Borrower**

##### *Tax Covenants.*

(a) It is the intention of the Authority and the Borrower that interest on the Tax-Exempt Bonds will be and remain excluded from the gross income of the owners thereof for federal income tax purposes, and to that end the covenants and agreements of the Borrower in this caption "*Tax Covenants*" and in the Tax Certificate are for the benefit of the Trustee on behalf of and for each and every owner of Tax-Exempt Bonds.

(b) The Borrower covenants and agrees that it will not use or permit the use of any of the funds provided by the Authority under the Loan Agreement or any other funds of the Borrower, directly or indirectly, or direct the Trustee to invest any funds held by it under the Loan Agreement or under the Indenture, in such manner as would, or enter into, or allow any "related person" (as defined in Section 147(a)(2) of the Code) to enter into, any arrangement, formal or informal, for the purchase of the Tax-Exempt Bonds that would, or take or omit to take any other action that would cause any Tax-Exempt Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or "federally guaranteed" within the meaning of Section 149(b) of the Code and applicable regulations promulgated from time to time thereunder.

(c) In the event that at any time the Borrower is of the opinion or becomes otherwise aware that for purposes of the provisions of the Loan Agreement and the Indenture regarding tax covenants, it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Borrower will determine the limitations and so instruct the Trustee in writing and cause the Trustee to comply with those limitations under the Indenture. The Borrower will take such action or actions as may be reasonably necessary in the opinion of Bond Counsel, or of which it otherwise becomes aware, to comply fully with Section 148 of the Code.

(d) The Borrower will not, pursuant to an arrangement, formal or informal, purchase Tax-Exempt Bonds in an amount related to the amount of the Loan, except as otherwise permitted under the Indenture.

(e) In order to maintain the exclusion of interest on the Tax-Exempt Bonds from the gross income of the owners thereof for federal income purposes and to assure compliance with the laws of the State, the Borrower agrees that it will, concurrently with or before the execution and delivery of the Tax-Exempt Bonds, execute and deliver the Tax Certificate, and will comply with every term of the Tax Certificate. The Borrower covenants with the Authority, for and on behalf of the Owners of the Tax-Exempt Bonds from time to time outstanding, that so long as any Tax-Exempt Bonds remain Outstanding, moneys on deposit in any fund, or account in connection with the Tax-Exempt Bonds, whether or not such moneys were derived from the proceeds of the sale of the Tax-Exempt Bonds or from any other sources, and moneys pledged directly or indirectly to the payment or for the securing of the Tax-Exempt Bonds, will not be used by or for the Borrower in a manner that will cause the Tax-Exempt Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The Borrower expressly recognizes that, to the extent required by Section 148 of the Code, "proceeds" of the Tax-Exempt Bonds (including investment proceeds and "replacement" proceeds) may be required to be invested at a yield not exceeding the yield on the Tax-Exempt Bonds in order to comply with the tax covenants under the Loan Agreement. In furtherance of such covenants, the Borrower agrees that it will not direct any investments or reinvestments that would contravene either the investment representations made by the Authority in the Tax Certificate or any investment directions provided by the Authority and deemed



reasonably necessary in the opinion of Bond Counsel to preserve the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes.

*Continuing Disclosure.* The Borrower covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement or the Indenture, failure of the Borrower or the Dissemination Agent to comply with the Continuing Disclosure Agreement will not be considered an Event of Default under the Loan Agreement or under the Indenture.

*Warranty of Truth.* The Borrower covenants that no information, certificate, statement in writing or report required by the Loan Agreement, any other Borrower Documents or otherwise furnished by the Borrower to the Authority or the Trustee will contain any untrue statement of a material fact or omit a material fact necessary to make such information, certificate, statement or report not misleading as it relates to the Borrower.

*Financial Covenants.* The Borrower covenants:

- (a) To maintain books and records separate from any other person or entity;
- (b) To maintain its accounts separate from any other person or entity;
- (c) Not to commingle assets with those of any other entity;
- (d) To conduct its own business in its own name;
- (e) To maintain separate financial statements;
- (f) To pay its own liabilities out of its own funds;
- (g) To observe all corporate formalities;
- (h) To maintain an arm's length relationship with its affiliates;
- (i) To pay the salaries of its own employees and maintain a sufficient number of employees in light of its contemplated business operations;
- (j) Not to guarantee or become obligated for the debts of any other entity or hold out its credit as being available to satisfy the obligations of others;
- (k) Not to acquire obligations or securities of its partners, members, or shareholders;
- (l) To allocate fairly and reasonably any overhead for shared office space;
- (m) To use separate stationery, invoices, and checks;
- (n) Not to pledge its assets for the benefit of any other entity or make any loans or advances to any entity;
- (o) To hold itself out as a separate entity;
- (p) To correct any known misunderstanding regarding its separate identity; and
- (q) To maintain adequate capital in light of its contemplated business operations.



*Prohibited Uses.* No portion of the proceeds of the Bonds will be used to finance or refinance any facility, place or building to be used (1) primarily for sectarian instruction or study or as a place for devotional activities or religious worship or (2) by a person that is not a 501(c)(3) Organization or a Governmental Unit or by a 501(c)(3) Organization (including the Borrower) in an “unrelated trade or business” (as set forth in Section 513(a) of the Code), in such a manner or to such extent as would result in any of the Tax-Exempt Bonds being treated as an obligation not described in Section 103(a) of the Code.

*Limitation on Disposition of Property, Plant and Equipment.* The Borrower covenants and agrees that it will not sell or otherwise dispose, including any disposition by lease, of the Property, Plant and Equipment consisting of all or any part of the Facility, except for disposition or transfers:

- (a) Of Property, Plant and Equipment no longer necessary for the operation of the Facility;
- (b) Of Property, Plant and Equipment replaced by Property, Plant and Equipment of similar type and/or of substantially equivalent function with a substantially equivalent value; or
- (c) Of Property, Plant and Equipment sold or disposed of at a price equal to their fair market value.

In addition to the foregoing limitations, the Borrower may not sell, lease or otherwise dispose (other than with respect to the public dedication in connection with the development of the Project) of any Property unless it will be established to the satisfaction of the Trustee that (i) the security of the Deed of Trust and the ability of the trustee thereunder to foreclose upon the remaining Property will not be impaired as a result of the disposition of such property, and (ii) the Borrower will have conveyed to the trustee under the Deed of Trust such rights-of-way, easements and other rights in land as are required for ingress to and egress from the remaining Property, for the utilization of the facilities located thereon and for utilities required to serve such facilities.

*Maintenance of Corporate Existence.* The Borrower will maintain its corporate existence under the laws of the State and its status as an organization described in Section 501(c)(3) of the Code.

#### **Defaults and Remedies**

*Events of Default.* Any one of the following which occurs and continues will constitute an Event of Default under the Loan Agreement:

- (a) failure by the Borrower to pay or cause to be paid when due the Loan Repayments, or
- (b) failure by the Borrower to pay or cause to be paid when due any other amounts required to be paid under the Loan Agreement and continuation of such failure to pay for ten (10) Business Days following written notice thereof; or
- (c) failure of the Borrower to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Loan Agreement (other than failure by the Borrower to pay the amounts required to be paid under the Loan Agreement, as referred to in paragraphs (a) or (b) above, and other than as provided in paragraph (d) below) after the Borrower will have been given 30 days’ written notice specifying such default and requesting it be remedied, unless the Trustee will have consented to an extension of such 30 day period; provided that the Borrower will have commenced cure and be diligently pursuing cure in good faith, which extension will not exceed 90 days; or
- (d) voluntary initiation by the Borrower of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the Borrower of any such proceeding that will remain undismissed for 60

calendar days, or failure by the Borrower to promptly have discharged any execution, garnishment or attachment of such consequence as would impair the ability of the Borrower to carry on its operations, or assignment by the Borrower for the benefit of creditors, or the entry by the Borrower into an agreement of composition with creditors or the failure generally by the Borrower to pay its debts as they become due; or

(e) occurrence and continuance of an "Event of Default" under the Indenture or any of the Borrower Documents, provided, however, that an Event of Default under the Indenture arising solely from the actions or inactions of the Authority or the Trustee will not be an Event of Default under the Loan Agreement; or

(f) any representation or warranty made in the Loan Agreement or any statement or representation made by the Borrower in any certificate, report, opinion, financial statement or other instrument furnished in connection with the Loan or any of the Borrower Documents proves to be incorrect in any material respect when made.

*Remedies.*

(a) Upon the occurrence of an Event of Default described above and at any time thereafter during the continuance of such Event of Default, the Trustee may take one or more or any combination of the following remedial steps:

(i) By written notice to the Borrower, declare the unpaid indebtedness on the Bonds and all amounts then due and payable under the Loan Agreement, whether by acceleration of maturity or otherwise, to be immediately due and payable, whereupon the same will become immediately due and payable; and

(ii) Take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Loan Agreement, or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under the Loan Agreement, the Bonds or any other Borrower Document.

Any amounts collected pursuant to action taken by the Trustee under paragraph (a) above will be applied in accordance with provisions of the Indenture. Notwithstanding anything in the Loan Agreement to the contrary, the indebtedness of the Borrower under the Loan Agreement may be separately and independently accelerated with or without an acceleration of the Bonds.

(b) If the Trustee will have proceeded to enforce the rights of the Authority under the Loan Agreement and such proceedings will have been discontinued or abandoned for any reason or will have been determined adversely to the Trustee or the Authority, then the Borrower, the Trustee and the Authority will be restored respectively to their several positions and rights under the Loan Agreement, and all rights, remedies and powers of the Borrower, the Authority and the Trustee will continue as though no such proceedings had taken place.

*Additional Remedies.* In addition to the above remedies, if an Event of Default occurs under the Loan Agreement, the Authority and the Trustee will have the right and remedy, without posting bond or other security, to have the provisions of the Loan Agreement specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach will cause irreparable injury to the Trustee or the Authority and that money damages will not provide an adequate remedy thereto.

## **Prepayment**

### *Prepayment of the Loan.*

(a) General. As further described below, the Borrower will have the right, so long as all amounts which have become due under the Loan Agreement have been paid, at any time or from time to time to prepay all or any part of its Loan Repayments and the Authority agrees that the Trustee will accept such prepayments when the same are tendered. Prepayments may be made by payments of cash or surrender of Bonds. All such prepayments (and the additional payment of any amount necessary to pay the applicable redemption price, if any, payable upon the redemption of Bonds) will be deposited upon receipt in the applicable account of the Redemption Fund and, at the request of and as determined by the Borrower, credited against payments due under the Loan Agreement or used for the redemption of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the provisions of the Indenture regarding special redemption and optional redemption. The Borrower also will have the right to surrender Bonds acquired by it in any manner whatsoever to the Trustee for cancellation, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any Additional Payments required to be made under the Loan Agreement remain unpaid, the Borrower will not be relieved of its obligations under the Loan Agreement.

(b) Prepayment in Whole or in Part. The Loan may be prepaid in whole or in part at any time by delivering to the Trustee amounts sufficient to defease a like principal amount of Bonds to their optional redemption date pursuant to the provisions of the Indenture regarding special redemption, optional redemption and defeasance.

(c) Prepayment in Whole upon Borrower Ceasing to Operate a Charter School in the Facility. This Loan may be prepaid in whole at any time (i) if the Borrower delivers a certificate to the Trustee to the effect that it has ceased to operate a charter school under the Charter School Law at the Facility, (ii) and, by delivery to the Trustee for deposit in the Change In Use Fund of amounts sufficient to defease the Bonds in full.

*Redemption of Bonds Upon Prepayment.* Upon prepayment of the Loan as provided the provisions of the Loan Agreement summarized above, the Trustee will do any of the following, as applicable: (1) call all or part of the Bonds for redemption, as required by the Indenture, in the respective amounts set forth in the applicable paragraph of the provisions of the Indenture regarding special redemption and optional redemption; and (2) provide for the defeasance of Bonds pursuant to the Indenture.

*Amount of Prepayment.* In the event of any prepayment pursuant to the provisions of the Loan Agreement summarized under the caption "*Prepayment of the Loan*," the amount of the Loan deemed to be prepaid will be equal to the principal amount of Bonds defeased or redeemed as described in the provisions of the Indenture regarding special redemption and optional redemption. In the case of prepayment of the Loan in full, the Borrower will pay to the Trustee an amount sufficient, together with other funds held by the Trustee and available for such purpose, to pay all reasonable and necessary fees and expenses (including attorneys' fees) of the Authority, the Trustee and any paying agent accrued and to accrue through final payment of the Bonds and all other liabilities of the Borrower accrued and to accrue under the Loan Agreement and will pay to the Authority certain other Additional Payments required by the Loan Agreement. In the case of partial prepayment of the Loan, the Borrower will pay or cause to be paid to the Trustee an amount sufficient, together with other funds held by the Trustee and available for such purpose, to pay expenses of redemption of the Bonds to be redeemed upon such prepayment.

The Borrower agrees that it will not prepay the Loan or any part thereof, except in amounts sufficient to redeem Bonds in whole multiples of \$5,000 and to pay any accrued interest to the redemption date.

## **Miscellaneous**

*Amendments; Modifications in Writing.* Except as otherwise provided in the Loan Agreement or the Indenture, subsequent to the initial issuance of Bonds and prior to their payment in full, or provision for such payment having been made as provided in the Indenture, the Loan Agreement may be effectively amended, changed, modified, altered or terminated only by written instrument executed by the parties to the Loan Agreement.

*Further Assurances and Corrective Instruments.* The Authority and the Borrower agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, in accordance with the Indenture, such supplements to the Loan Agreement and such further instruments as may reasonably be required for the purpose of (a) curing any ambiguity or formal defect or omission in the Loan Agreement, or (b) correcting any inadequate or incorrect description of the obligations of the parties to the Loan Agreement or the performance of their duties under the Loan Agreement; provided, however, that no such supplements or instruments will expand the liability of the parties under the Loan Agreement. The Authority will have no obligation to prepare any such supplements or further instruments.

**APPENDIX H**  
**FORM OF CONTINUING DISCLOSURE AGREEMENT**

## FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of February 1, 2013, is executed and delivered by and between Coastal Academy Charter School, Inc., a California nonprofit public benefit corporation (the "Borrower") and Wells Fargo Bank, National Association, as trustee and dissemination agent (the "Trustee" and "Dissemination Agent") in connection with the issuance by the California School Finance Authority (the "Authority") of its (i) Charter School Revenue Bonds (Coastal Academy Project), Series 2013A (the "Series 2013A Bonds") and (ii) Charter School Revenue Bonds (Coastal Academy Project), Series 2013B (Taxable) (the "Series 2013B Bonds" and together with the Series 2013A Bonds, the "Bonds"). The Bonds are being issued pursuant to an Indenture dated as of February 1, 2013 (the "Indenture") by and between the Authority and the Trustee. The proceeds of the Bonds are being loaned by the Authority to the Borrower pursuant to a Loan Agreement dated as of February 1, 2013 (the "Loan Agreement"). Pursuant to the Loan Agreement, the Borrower has covenanted and agreed to provide the continuing disclosure of certain financial information and operating data and timely notices of the occurrence of certain events.

**Section 1. Purpose of Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the Borrower for the benefit of the Registered Owners of the Bonds (for such purpose beneficial owners of the Bonds shall also be considered Registered Owners of the Bonds) and to assist RBC Capital Markets, LLC (the "Participating Underwriter"), in complying with the Rule.

### **Section 2. Defined Terms.**

*"Annual Report"* means the financial information and operating data required to be transferred by the Borrower to the Dissemination Agent pursuant to the Section 3(a)(1) of this Disclosure Agreement.

*"Authority"* means the California School Finance Authority, its successors and assigns.

*"Beneficial Owner"* means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

*"Bonds"* means the Series 2013A Bonds and the Series 2013B Bonds.

*"Borrower"* means Coastal Academy Charter School, Inc., a California nonprofit corporation, its successors and assigns.

*"Borrower's Audited Financial Statements"* means the Borrower's annual financial statements, prepared in accordance with generally accepted accounting principles ("GAAP").

*"Borrower's Disclosure Representative"* means the Executive Director or Associate Director of the Borrower or his or her designee or such other person as the Borrower shall designate in writing to the Trustee from time to time.

*"Borrower's Fiscal Year"* means the fiscal year of the Borrower.

*"Dissemination Agent"* means the Trustee, as dissemination agent under this Disclosure Agreement, its successors and assigns.

"EMMA" means the Electronic Municipal Market Access system operated by the MSRB and the primary portal for complying with the continuing disclosure requirements of the Rule.

"Events Notices" means the notices required to be given by the Borrower pursuant to Section 5 of this Disclosure Agreement.

"Indenture" means the Indenture, dated as of February 1, 2013, between the Authority and the Trustee.

"Limited Offering Memorandum" means the Limited Offering Memorandum dated January 16, 2013, relating to the Bonds.

"MSRB" means the Municipal Securities Rulemaking Board, located at 1900 Duke Street, Suite 600, Alexandria, Virginia 22314, its successors and assigns.

"Operations Report" means the financial information and operating data required to be transferred by the Borrower to the Dissemination Agent pursuant to the Section 3(a)(3) of this Disclosure Agreement.

"Participating Underwriter" means RBC Capital Markets, LLC, as original purchaser of the Bonds, its successors and assigns.

"Quarterly Report" means the financial information and operating data required to be transferred by the Borrower to the Dissemination Agent pursuant to the Section 3(a)(2) of this Disclosure Agreement.

"Repository" means EMMA.

"Rule" means SEC Rule 15c2-12(b)(5) promulgated by the SEC under the Securities Exchange Act of 1934, as amended or supplemented by the SEC from time to time.

"SEC" means the Securities and Exchange Commission, its successors and assigns.

"Series 2013A Bonds" means the Authority's Charter School Revenue Bonds (Coastal Academy Project), Series 2013A, in the original aggregate principal amount of \$13,855,000.

"Series 2013B Bonds" means the Authority's Charter School Revenue Bonds (Coastal Academy Project), Series 2013B (Taxable), in the original aggregate principal amount of \$300,000.

"Trustee" means Wells Fargo Bank, National Association, its successors and assigns.

"Underwriter" means RBC Capital Markets, LLC, its successors and assigns.

### **Section 3. Provision of Annual Reports, Quarterly Reports, and Operations Reports.**

(a) (1) *Annual Reports.* Not later than 180 days after the end of the Borrower's fiscal year, commencing with the fiscal year ended June 30, 2013, the Borrower shall provide to the Repository, or shall cause the Dissemination Agent to provide to the Repository, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Borrower may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if the audited financial statements are not available by that date, but the unaudited financial information available on such date is submitted. The Annual Report shall be provided at least annually notwithstanding a fiscal year longer than twelve (12) calendar months. The Borrower may

change their current fiscal year, but must notify the Authority and the Repository or any other filing system approved by the SEC, of each such change within thirty (30) days after the later of the adoption of a new fiscal year and the end of the fiscal year that occurs before the former fiscal year would have ended.

(2) *Quarterly Reports.* On or before forty-five (45) days after the end of each fiscal quarter (each a "Quarterly Submission Date"), commencing with the quarter ending March 31, 2013, the Borrower shall provide to the Repository, or shall cause the Dissemination Agent to provide to the Repository, certain financial information relating to the Borrower as specified in Section 4(b) hereof (the "Quarterly Reports"). In each case, the Quarterly Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement.

(3) *Operations Reports.* Within thirty (30) days of its receipt or completion, the Borrower shall provide to the Repository, or shall cause the Dissemination Agent to provide to the Repository, the following information:

(i) a copy (which may be sent electronically) of the Borrower's adopted annual budget for the present Fiscal Year and a copy of revisions, if any, to the Borrower's annual budget as approved by its governing board;

(ii) a copy (which may be sent electronically) of the allotment memorandum sent to the Borrower each month by the California Office of Education indicating the amount of the Borrower's State Payment amount for the month;

(iii) if the Borrower has determined to renovate or expand its facilities, a capital assessment plan (which may be sent electronically) detailing the condition of each of the facilities and the projected sources of funding such needs, if any;

(iv) a copy of the official School Fall Enrollment Report (which may be sent electronically) showing the Borrower's official October 1 enrollment.

(b) As soon as is practicable after the completion of any of the disclosure reports required by paragraph (a) (collectively referred to as the "Disclosure Reports"), the Borrower shall provide each Disclosure Report to the Dissemination Agent. The Dissemination Agent shall, at the Borrower's cost, transmit the information contained in the Disclosure Reports in accordance with the requirements of Section 7 hereof.

(c) If the Borrower does not provide to the Dissemination Agent a copy of an Annual Report or the Quarterly Report by the applicable dates required in Section 3(a) above, the Dissemination Agent shall send a notice to the Borrower, the Repository, and the Participating Underwriter, in substantially the form attached as EXHIBIT B. In the event that the Borrower files the Disclosure Reports directly with the Repository on or before the dates required in Section 3(a) above, the Borrower shall promptly provide the Dissemination Agent with a certification, or other documentation reasonably required by the Dissemination Agent, that the filing of the Disclosure Report was made in a timely manner on or before the date required herein and such filing contained the information required by this Disclosure Agreement.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address (physical or electronic, as applicable) of each Repository; and

(ii) provided the Annual Report has been provided to the Dissemination Agent by the Borrower, file a report with the Borrower, and (if the Dissemination Agent is not the Trustee) the Dissemination Agent certifying that the Annual Report has been provided



pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

#### **Section 4. Content of Annual Reports and Quarterly Reports.**

(a) *Annual Reports.* The Annual Report shall contain or include by reference the audited financial statements of the Borrower for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time. If the Borrower's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain financial statements that have not been reviewed in a format similar to the Borrower's audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

To the extent not included in the audited final statements of the Borrower, the Annual Report shall also include (i) updates to the information in the Limited Offering Memorandum found in the table(s) under the headings "FINANCIAL INFORMATION set forth in "APPENDIX A – CERTAIN INFORMATION REGARDING THE BORROWER AND THE PROJECT"; and (ii) a certificate substantially in the form attached hereto as EXHIBIT A that provides certain Borrower data and demonstrates the Borrower's compliance with certain operating covenants contained in the Loan Agreement.

(b) *Quarterly Reports.* The Quarterly Report shall contain unaudited financial statements of the Borrower for such fiscal quarter consisting of at least statements of financial position (balance sheets and income statements) as of the end of such quarter and statements of activities for such fiscal quarter and year to date, each prepared in accordance with generally accepted accounting principles, as in effect from time to time (subject to year end adjustments and except such financial statements may omit footnotes that would be required by generally accepted accounting principles), consistently applied, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles beyond the reasonable control of the Borrower noting the discrepancies therefrom and the effect thereof. The Quarterly Report shall also contain a statement of the amount of bond proceeds expended as of the end of the applicable fiscal quarter and an estimate of the completion date for construction of the Project.

(c) Any or all of the Disclosure Reports may be incorporated by reference from other documents, including official statements, which have been submitted to the Repository. If the Disclosure Report information is changed or this Disclosure Agreement is amended in accordance with its terms, then the Borrower is to include in the next Disclosure Report to be delivered thereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

**Section 5. Material Events.** The Borrower agrees to provide or cause to be provided, in a timely manner not in excess of ten (10) business days, (i) to the Participating Underwriter and (ii) to the Repository or to any other filing system approved by the SEC, notice of the occurrence of any of the following events ("Events Notice") with respect to the Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if material;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;

- (f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (g) Modifications to rights of security holders, if material;
- (h) Bond calls, if material, and tender offers;
- (i) Defeasances;
- (j) Release, substitution, or sale of property securing repayment of the securities, if material;
- (k) Rating changes;
- (l) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (m) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Each Events Notice shall be so captioned and shall prominently state the date, title and (to the extent less than all of the Bonds are affected by the related material event) CUSIP numbers of the affected Bonds. The Borrower may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above.

**Section 6. EMMA.** The SEC has designated the EMMA system operated by the MSRB as the nationally recognized municipal securities information repository and the exclusive portal for complying with continuing disclosure requirements of the Rule. Until the EMMA system is amended or altered by the MSRB or the SEC, the Dissemination Agent shall make all filings required under this Disclosure Agreement solely with EMMA.

**Section 7. Dissemination Agent.** The Borrower has engaged the Trustee to assist the Borrower in disseminating information hereunder (the "Dissemination Agent"). The Borrower shall send all Disclosure Reports required by Section 3 hereof, and Event Notices required by Section 5 hereof, to the Dissemination Agent. The Dissemination Agent shall, within ten (10) days of receipt of such Disclosure Report and within ten (10) business days of the occurrence of the events requiring an Events Notice, forward such information to (i) the Repository and/or the MSRB or any other filing system approved by the SEC, as appropriate; (ii) the Authority; (iii) the Participating Underwriter; and (iv) any Registered or Beneficial Owner of the Bonds identified in writing by the Participating Underwriter. The Borrower agrees to pay any reasonable costs incurred by the Dissemination Agent as a result of disseminating information to any requesting Registered or Beneficial Owners of the Bonds. The Borrower may discharge the Dissemination Agent or any successor Dissemination Agent with or without appointing a successor Dissemination Agent. The Dissemination Agent does not have any duty to review the materials described in this paragraph prior to disseminating such materials.

**Section 8. Termination of Obligations.** Pursuant to paragraph (b)(5)(iii) of the Rule, the Borrower's obligation to provide the Disclosure Reports and any Events Notice, as set forth in this Disclosure Agreement, shall terminate if and when the Borrower no longer remains an obligated person with respect to the Bonds,

which shall occur upon either payment of the Bonds in full or the legal defeasance of the Bonds in accordance with the Indenture.

**Section 9. Enforceability and Remedies.** This Disclosure Agreement is intended to be for the sole benefit of the Registered Owners of the Bonds (for such purpose beneficial owners of the Bonds shall also be considered Registered Owners of the Bonds), the Authority, and the Underwriter and shall create no rights in any other person or entity.

This Disclosure Agreement shall be enforceable by or on behalf of any such Registered Owner of the Bonds, provided that the right of any Registered Owner to challenge the timely filing, failure to file or the adequacy of the information furnished pursuant to this Disclosure Agreement shall be limited to an action by or on behalf of Registered Owners representing at least 25% of the aggregate outstanding principal amount of the Bonds. This Disclosure Agreement is also enforceable on behalf of the Registered Owners of the Bonds by the Trustee, and the Trustee may, and upon the written direction of (i) the Registered Owners of not less than 25% of the aggregate outstanding principal amount of the Bonds or (ii) the Underwriter shall, proceed to protect and enforce the rights of the Registered Owners of the Bonds pursuant to this Disclosure Agreement; provided that in all cases the Trustee shall be entitled to the indemnification and other provisions of the Indenture with regard to any actions. Prior to proceeding at the request or direction of the Underwriter the Trustee may require the same types of indemnification and related protections from the Underwriter to which the Trustee would otherwise be entitled under the Indenture if so requested or directed by the Registered Owners under the terms of the Indenture. Any failure by the Borrower to comply with the provisions of this Disclosure Agreement shall not be an Event of Default under the Loan Agreement or the Indenture.

The Registered Owners' and the Trustee's rights to enforce the provisions of this Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel the Borrower to perform the Borrower's obligations under this Disclosure Agreement, and the Borrower, its directors, officers and employees shall incur no liability under this Disclosure Agreement by reason of any act or failure to act hereunder. Without limiting the generality of the foregoing, neither the commencement nor the successful completion of an action to compel performance under this Section 9 entitles the Trustee or any other person to attorneys' fees, financial damages of any sort or any other relief other than an order or injunction compelling performance; provided that the Trustee shall nevertheless be entitled to attorneys' fees and such other rights and amounts as provided in the Indenture.

**Section 10. Amendment.** Notwithstanding any other provision of this Disclosure Agreement, the Borrower and the Trustee may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, without the consent of the Registered Owners but with the consent of the Trustee, under the following conditions:

(a) The amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Borrower, or type of business conducted;

(b) This Disclosure Agreement, as amended or with the provision so waived, would have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interest of Registered Owners of the Bonds, as determined either by parties unaffiliated with the Borrower (which shall include the Trustee or Bond Counsel, or any other party determined by any of them to be unaffiliated), or by approving vote of Registered Owners of the Bonds pursuant to the terms of the Indenture at the time of the amendment or waiver.

The Borrower shall provide notice of each amendment or waiver to the Repository or any other filing system approved by the SEC. The initial annual financial or operating information provided by the Borrower after the amendment or waiver shall explain, in narrative form, the reasons for the amendment or waiver and the effect of the change in the type of operating data or financial information being provided.

**Section 11. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute one instrument.

**Section 12. Choice of Law.** This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of California, provided that to the extent this Disclosure Agreement addresses matters of federal securities laws, including the Rule, this Disclosure Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

**Section 13. Severability.** If any portion of this Disclosure Agreement shall be held invalid or inoperative, then, so far as is reasonable and possible (i) the remainder of this Disclosure Agreement shall be considered valid and operative, and (ii) effect shall be given to the intent manifested by the portion held invalid or inoperative.

**Section 14. Other Instruments.** The Borrower and the Dissemination Agent covenant and agree that they will execute such other and further instruments and documents as are or may become necessary or convenient to effectuate and carry out this Disclosure Agreement.

**Section 15. Captions, Titles, and Headings.** The captions, titles, and headings used in this Disclosure Agreement are for convenience only and shall not be construed in interpreting this Disclosure Agreement.

**Section 16. Entire Agreement.** This Disclosure Agreement contains the entire understanding among the parties and supersedes any prior understandings or written or oral agreements between them respecting the subject matter of this Disclosure Agreement.

**WELLS FARGO BANK, NATIONAL ASSOCIATION,  
as Trustee and Dissemination Agent**

By: \_\_\_\_\_  
Its: Authorized Officer

[Signature Page to Continuing Disclosure Agreement – Coastal Academy]

**COASTAL ACADEMY CHARTER SCHOOL,  
INC., a California nonprofit public benefit corporation**

By: \_\_\_\_\_  
Its: \_\_\_\_\_

[Signature Page to Continuing Disclosure Agreement – Coastal Academy]

**EXHIBIT A**

**FORM OF CERTIFICATE FOR ANNUAL FILING  
OF CERTAIN OPERATING COVENANTS**

Name of Issuer: California School Finance Authority  
Name of Bond Issue: California School Finance Authority Charter School Revenue Bonds (Coastal Academy Project) Series 2013A and Series 2013B (Taxable)  
Dissemination Agent: Wells Fargo Bank, National Association  
Name of Borrower: Coastal Academy Charter School, Inc.  
Date of Issuance: February 7, 2013

NOTICE IS HEREBY GIVEN that the Borrower is providing to the Dissemination Agent the following operational information as required under Section 4(a) of the Continuing Disclosure Agreement, dated as of February 1, 2013 (the "Disclosure Agreement"), between the Dissemination Agent and the Borrower. The Disclosure Agreement requires that the Borrower provide this information to the Dissemination Agent within 180 days of the end of each fiscal year. Defined terms used in this certificate and not defined herein shall have the meanings granted to such terms in the Indenture, dated as of February 1, 2013 (the "Indenture"), between the Issuer and the Dissemination Agent, as trustee. The information contained below is unaudited.

1. As of June 30, 20\_\_ , the Borrower's:
  - (a) Cash on Hand was equal to \$\_\_\_\_\_.
  - (b) Days Cash on Hand was \_\_\_ days (Cash on Hand in the amount of \$\_\_\_\_\_, divided by the quotient of Operating Expenses of \$\_\_\_\_\_ for the fiscal year ended June 30, divided by 365).
  - (c) The amount of Cash on Hand required to comply with the covenant contained in Section 5. \_\_ of the Loan Agreement for current fiscal year is \$\_\_\_\_\_ (equal to \_\_\_% of Borrower's Gross Revenues on the date of calculation) and the Borrower [is/is not] in compliance with such covenant.
  - (d) The Borrower's Debt Service Coverage Ratio for fiscal year 20\_\_ was \_\_\_ x.
2. Faculty to Student Ratio information by grade level in the form set forth below:
3. Faculty Retention Rate from the 20\_\_ -20\_\_ School Year to the 20\_\_ -20\_\_ School Year: \_\_\_%.
4. Projected Enrollment.
5. Student Retention Rate from the 20\_\_ -20\_\_ School Year to the 20\_\_ -20\_\_ School Year.

6. Academic Performance Index Scores.

7. Average Daily Attendance information of the type set forth in the table on A-\_\_ of the Limited Offering Memorandum specified by block grant funding grade spans.

8. Enrollment information of the type set forth in the tables on A-\_\_ of the Limited Offering Memorandum.

This certificate is being provided by the Borrower to the Dissemination Agent on a date which is [within][outside] of 180 days from the end of the Borrower's prior fiscal year.

Dated: \_\_\_\_\_

**COASTAL ACADEMY CHARTER SCHOOL, INC., as  
Borrower**

By: \_\_\_\_\_  
Its: \_\_\_\_\_



**EXHIBIT B**

**NOTICE TO REPOSITORIES OF FAILURE TO  
FILE ANNUAL OR QUARTERLY REPORT**

Name of Issuer: California School Finance Authority  
Name of Bond Issue: California School Finance Authority Charter School Revenue Bonds  
(Coastal Academy Project) Series 2013A and Series 2013B (Taxable)  
Dissemination Agent: Wells Fargo Bank, National Association  
Name of Borrower: Coastal Academy Charter School, Inc.  
Date of Issuance: February 7, 2013

NOTICE IS HEREBY GIVEN that the Borrower has not provided an [Annual Report][Quarterly Report] with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of February 1, 2013, between the undersigned Dissemination Agent and the Borrower. The Borrower anticipates that the [Annual Report] [Quarterly Report] will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**WELLS FARGO BANK, NATIONAL ASSOCIATION**  
as Dissemination Agent

By \_\_\_\_\_  
Authorized Signatory

cc: Coastal Academy Charter School, Inc.  
RBC Capital Markets, LLC

**APPENDIX I**  
**BOOK-ENTRY ONLY SYSTEM**

## BOOK-ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of each Series of Bonds, each in the aggregate principal amount of that maturity of Bonds, and will be deposited with DTC. If, however, the aggregate principal amount of any series and maturity exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such series and maturity.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Borrower believes to be reliable, but neither the Authority nor the Borrower take responsibility for the accuracy thereof.

**APPENDIX J**

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

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

*Upon delivery of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel to the Authority, proposes to render its final approving opinion with respect to the Tax-Exempt Bonds in substantially the following form:*

[Delivery Date]

California School Finance Authority  
Sacramento, California

\$13,855,000  
CALIFORNIA SCHOOL FINANCE AUTHORITY  
CHARTER SCHOOL REVENUE BONDS  
(COASTAL ACADEMY PROJECT)  
SERIES 2013A

Ladies and Gentlemen:

We have examined a certified copy of the record of proceedings relating to the issuance by the California School Finance Authority (the "Authority") of California School Finance Authority Charter School Revenue Bonds (Coastal Academy Project) Series 2013A (the "Bonds"). The Bonds are issued pursuant to the provisions of Chapter 18 (commencing with Section 17170) of Part 10 of Division 1 of Title 1 of the Education Code of the State of California (the "Act"), and an indenture, dated as of February 1, 2013 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to the Coastal Academy Charter School, Inc. (the "Borrower"), pursuant to a Loan Agreement, dated as of February 1, 2013 (the "Loan Agreement"), by and between the Authority and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Indenture.

We have relied on the opinion of the Law Office of Jennifer McQuarrie, counsel to the Borrower, regarding, among other matters, the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). We note that such opinion is subject to a number of qualifications and limitations. We have 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. Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Borrower within the meaning of Section 513 of the Code, may result in interest (and original issue discount) on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

In our capacity as Bond Counsel, we have examined originals or copies certified or otherwise identified to our satisfaction as being true copies of the (i) Indenture, (ii) the Loan Agreement, (iii) the Tax Certificate, dated February 7, 2013, (iv) the Limited Offering Memorandum, dated January 16, 2013 (the "Limited Offering Memorandum"), (v) the Bond Purchase Agreement concerning the Bonds, dated as of

January 16, 2013, (the "Purchase Agreement"), by and between the Borrower and RBC Capital Markets, LLC, as underwriter (the "Underwriter"), (vi) letters, certificates and opinions of counsel to the Authority, the Borrower, the Trustee and others delivered pursuant to Section 7(h) of the Purchase Agreement, and (vii) such other laws, documents, certifications, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have assumed, but have not independently verified, that the signatures on all documents, letters, opinions and certificates which we have examined (whether originals or copies) are genuine, that all documents submitted to us are authentic and were duly and properly executed by the parties thereto and that all representations made in the documents that we have reviewed and all legal conclusions contained in the opinions referred to in the preceding paragraph are true and accurate. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement, the Purchase Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge to secure the payment of the principal of, premium, if any, and interest on the Bonds, of the Payments and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in the funds and accounts established pursuant to the Indenture (except the Rebate Fund), subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Authority in the Loan Agreement (to the extent more particularly described in the Indenture).
3. The Bonds are valid and binding limited obligations of the Authority, payable solely from the Payments and other assets pledged and assigned therefor under the Indenture and are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. The Bonds shall never constitute the debt or indebtedness of the Authority within the meaning of any provision or limitation of the Constitution of the State of California, and shall not constitute nor give rise to a pecuniary liability of the Authority or a charge against its general credit or taxing powers.
4. The Loan Agreement has been duly authorized, executed and delivered by, and constitutes the valid and binding agreement of, the Authority.
5. Under existing statutes, regulations, rulings and judicial decisions, assuming compliance by the Authority and the Borrower with certain covenants of the Indenture, the Loan Agreement, the Tax Certificate and other documents pertaining to the Bonds and certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the organization and operation of the Borrower, the use, expenditure and investment of Bond proceeds and the timely payment of certain investment earnings to the United States Treasury, interest on the Bonds is excluded from gross income of the owners of the Bonds for purposes of federal income taxation. Furthermore, interest on the Bonds is exempt from State of California personal income tax. We can give no opinion or assurance about the future activities of the Borrower or about the effect of future changes in the Code, the applicable regulations, the interpretations thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure to comply with the covenants and requirements described above or failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in

Section 501(c)(3) of the Code may cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

6. Interest on the Bonds will not be treated as an item of tax preference in calculating alternative minimum taxable income of individuals and corporations; however, interest on the Bonds will be included as an adjustment in the calculation of corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

7. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. Original issue discount that accrues to the Bondowner 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 California personal income tax.

8. The amount by which a Bondowner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bondowner's basis in the applicable 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 Bond premium may result in a Bondowner realizing a taxable gain when a Bond is sold by the Bondowner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Bondowner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

We express no opinion regarding other federal or state income tax consequences caused by ownership of, or the receipt of interest on, the Bonds.

The foregoing opinions relate to the matters described herein only as of the date hereof. Certain requirements and procedures contained or referred to in the Indenture or other relevant documents relating to the Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with an approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion of interest (and original issue discount) on the Bonds from gross income of the owners of the Bonds for federal income tax purposes with respect to any such change.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We call attention to the fact that the rights and obligations under the Indenture, the Loan Agreement, the Tax Certificate and the Bonds and their enforceability may be subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Indenture or the



Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Limited Offering Memorandum or other offering material relating to the Bonds and express no opinion with respect thereto.

Respectfully submitted,

**APPENDIX K**

**FORM OF BOND COUNSEL OPINION WITH RESPECT TO TAXABLE BONDS**

**FORM OF OPINION OF BOND COUNSEL WITH RESPECT TO TAXABLE BONDS**

*Upon delivery of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel to the Authority, proposes to render its final approving opinion with respect to the Taxable Bonds in substantially the following form:*

[Delivery Date]

California School Finance Authority  
Sacramento, California

\$300,000  
CALIFORNIA SCHOOL FINANCE AUTHORITY  
CHARTER SCHOOL REVENUE BONDS  
(COASTAL ACADEMY PROJECT)  
SERIES 2013B (TAXABLE)

Ladies and Gentlemen:

We have examined a certified copy of the record of proceedings relating to the issuance by the California School Finance Authority (the "Authority") of California School Finance Authority Charter School Revenue Bonds (Coastal Academy Project) Series 2013B (Taxable) (the "Bonds"). The Bonds are issued pursuant to the provisions of Chapter 18 (commencing with Section 17170) of Part 10 of Division 1 of Title 1 of the Education Code of the State of California (the "Act"), and an indenture, dated as of February 1, 2013 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to the Coastal Academy Charter School, Inc. (the "Borrower"), pursuant to a Loan Agreement, dated as of February 1, 2013 (the "Loan Agreement"), by and between the Authority and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Indenture.

In our capacity as Bond Counsel, we have examined originals or copies certified or otherwise identified to our satisfaction as being true copies of the (i) Indenture, (ii) the Loan Agreement, (iii) the Tax Certificate, dated February 7, 2013, (iv) the Limited Offering Memorandum, dated January 16, 2013 (the "Limited Offering Memorandum"), (v) the Bond Purchase Agreement concerning the Bonds, dated as of January 16, 2013, (the "Purchase Agreement"), by and between the Borrower and RBC Capital Markets, LLC, as underwriter (the "Underwriter"), (vi) letters, certificates and opinions of counsel to the Authority, the Borrower, the Trustee and others delivered pursuant to Section 7(h) of the Purchase Agreement, and (vii) such other laws, documents, certifications, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have assumed, but have not independently verified, that the signatures on all documents, letters, opinions and certificates which we have examined (whether originals or copies) are genuine, that all documents submitted to us are authentic and were duly and properly executed by the parties thereto and that all representations made in the documents that we have reviewed and all legal conclusions contained in the opinions referred to in the preceding paragraph are true and accurate. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement, the Purchase Agreement and the Tax Certificate.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge to secure the payment of the principal of, premium, if any, and interest on the Bonds, of the Payments and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in the funds and accounts established pursuant to the Indenture (except the Rebate Fund), subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Authority in the Loan Agreement (to the extent more particularly described in the Indenture).
3. The Bonds are valid and binding limited obligations of the Authority, payable solely from the Payments and other assets pledged and assigned therefor under the Indenture and are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. The Bonds shall never constitute the debt or indebtedness of the Authority within the meaning of any provision or limitation of the Constitution of the State of California, and shall not constitute nor give rise to a pecuniary liability of the Authority or a charge against its general credit or taxing powers.
4. The Loan Agreement has been duly authorized, executed and delivered by, and constitutes the valid and binding agreement of, the Authority.
5. Interest on the Bonds is exempt from State of California personal income tax.
6. Under existing statutes, regulations, rulings and judicial decisions, interest (and original discount) on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code").

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.

The foregoing opinions relate to the matters described herein only as of the date hereof. Certain requirements and procedures contained or referred to in the Indenture or other relevant documents relating to the Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with an approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Other than expressly stated herein, we express no opinion regarding other federal or state income tax consequences caused by ownership of, or the receipt of interest on, the Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We call attention to the fact that the rights and obligations under the Indenture, the Loan Agreement, the Tax Certificate and the Bonds and their enforceability may be subject to bankruptcy, insolvency, reorganization,

moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Limited Offering Memorandum or other offering material relating to the Bonds and express no opinion with respect thereto.

Respectfully submitted,