

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Bond Counsel is of the further opinion that interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.*

**\$15,775,000**

**CALIFORNIA SCHOOL FINANCE AUTHORITY  
SCHOOL FACILITY REVENUE BONDS**

**(ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS – 2023 UNION LLC PROJECT)**

**\$15,690,000****\$85,000****2013 Series A (Tax-Exempt)****2013 Series B (Taxable)****Dated: Date of Delivery****Due: July 1, as shown on the inside cover**

The California School Finance Authority (the "Authority") is issuing its School Facility Revenue Bonds (Alliance for College-Ready Public Schools – 2023 Union LLC Project), 2013 Series A, in the aggregate principal amount of \$15,690,000 (the "Tax-Exempt Bonds") and its School Facility Revenue Bonds (Alliance for College-Ready Public Schools – 2023 Union LLC Project), 2013 Series B, in the aggregate principal amount of \$85,000 (the "Taxable Bonds" and together with the Tax-Exempt Bonds, the "Bonds") pursuant to an Indenture, dated as of October 1, 2013 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Authority will loan the proceeds of the Bonds to 2023 Union LLC, a California limited liability company (the "Borrower" or the "Lessor"), pursuant to a Loan Agreement, dated as of October 1, 2013, by and between the Authority and the Borrower (the "Loan Agreement").

The Bonds are limited obligations of the Authority payable only out of certain revenues and other amounts held in certain funds established by the Indenture (except the Rebate Fund). The Borrower will use the proceeds of the Bonds to (i) refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of a public charter high school facility located at 2023 South Union Avenue, in the City of Los Angeles, California (the "Facility") to be leased to Alliance Gertz-Ressler/Richard Merkin 6-12 Complex, organized as a California non-profit public benefit corporation (the "School" or the "Lessee"), to operate a charter school managed by Alliance for College-Ready Public Schools, a California non-profit public benefit corporation ("Alliance"); (ii) finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of land and facilities located throughout the Cities of Los Angeles and Huntington Park, California, which are generally owned by LLCs, the sole member of each being the Sole Member or Alliance, and operating as public charter schools that is provided certain operational services by Alliance and (iii) pay costs of issuance of the Bonds. The School has a determination letter from the Internal Revenue Service recognizing it as an organization described in Section 501(c)(3) of the Code. The obligations of the Borrower under the Loan Agreement are secured by an assignment of the rent payments received from the School under the Lease. Alliance is not a party to, or obligated under, the Lease, the Loan Agreement or the Bonds. See APPENDIX A – "CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE" herein.

Interest on the Bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2014. The Bonds are being issued as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchase of beneficial interests in the Bonds will be made in book-entry-only form (without physical certificates) in denominations of \$25,000 and any integral multiple of \$5,000 in excess thereof. For so long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, (i) payments of the principal of and premium, if any, and interest on such Bonds will be made directly to Cede & Co. for payment to its participants for subsequent disbursement to the Beneficial Owner, and (ii) all notices, including any notice of redemption shall be mailed only to Cede & Co. See APPENDIX E – "BOOK-ENTRY SYSTEM" herein.

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

THE BONDS ARE TO BE OFFERED AND SOLD (INCLUDING IN SECONDARY MARKET TRANSACTIONS) ONLY TO APPROVED INSTITUTIONAL INVESTORS (DEFINED AS "QUALIFIED INSTITUTIONAL BUYER" UNDER RULE 144A OF THE SECURITIES ACT OF 1933) AND ACCREDITED INVESTORS (AS DEFINED IN REGULATION D OF THE SECURITIES ACT OF 1933). THE BONDS AND BENEFICIAL INTERESTS THEREIN MAY BE TRANSFERRED, UPON SATISFACTION OF CERTAIN CONDITIONS, ONLY TO CERTAIN APPROVED INSTITUTIONAL BUYERS OR ACCREDITED INVESTORS. SEE "NOTICE TO INVESTORS" AND "TRANSFER RESTRICTIONS."

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF UNDER THE INDENTURE, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF, OR THE REDEMPTION PREMIUM, IF ANY, OR INTEREST, EXCEPT FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE REDEMPTION PREMIUM, IF ANY OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

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

The Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale and approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Authority, and certain other conditions. Certain matters will be passed upon for the Authority by Nixon Peabody LLP, for the Borrower, the Sole Member, Alliance and the School by Musick Peeler & Garrett LLP, Los Angeles, California and for the Underwriter by Eichner, Norris & Neumann PLLC, Washington, District of Columbia. It is expected that the Bonds in definitive form will be available for delivery through DTC in New York, New York, on or about October 24, 2013.

**Honorable Bill Lockyer  
Treasurer of the State of California  
as Agent for Sale**

**RBC CAPITAL MARKETS LLC**

Dated: October 9, 2013

**MATURITY SCHEDULE**

**\$15,775,000**

**CALIFORNIA SCHOOL FINANCE AUTHORITY  
SCHOOL FACILITY REVENUE BONDS  
(ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS – 2023 UNION LLC PROJECT)**

**\$15,690,000**

**2013 SERIES A (TAX-EXEMPT)**

\$2,065,000 5.25% Term Bonds Due July 1, 2023 – Yield 5.25% CUSIP<sup>†</sup> No. 13059 TAE9

\$3,215,000 6.00% Term Bonds Due July 1, 2033 – Yield 5.97% CUSIP<sup>†</sup> No. 13059 TAF6

\$5,840,000 6.30% Term Bonds Due July 1, 2043 – Yield 6.30% CUSIP<sup>†</sup> No. 13059 TAG4

\$4,570,000 6.40% Term Bonds Due July 1, 2048 – Yield 6.40% CUSIP<sup>†</sup> No. 13059 TAH2

**\$85,000**

**2013 SERIES B (TAXABLE)**

\$85,000 5.50% Term Bonds Due July 1, 2014 – Yield 5.50% CUSIP<sup>†</sup> No. 13059 TAJ8

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This Limited Offering Memorandum does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, salesperson or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Bonds, and, if given or made, such information or representation must not be relied upon.

The information set forth herein under the captions “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION — The Authority” has been furnished by the California School Finance Authority. All other information set forth herein has been obtained from the Borrower and other sources that are believed to be reliable. The adequacy, accuracy or completeness of such information is not guaranteed by, and is not to be construed as a representation of, the Authority or the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Limited Offering Memorandum, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of the Authority, The Depository Trust Company or the Borrower since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Limited Offering Memorandum: The Underwriter has reviewed the information in this Limited Offering Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of these transactions, but the Underwriter does not guarantee the accuracy or completeness of this information.

The Authority has not reviewed any appraisal for the Project or any feasibility study or other financial analysis of the Project and has not undertaken to review or approve expenditures for the Project, to supervise the acquisition and rehabilitation of the Project, or to obtain any financial statements of the Borrower.

The Authority has not reviewed this Limited Offering Memorandum and is not responsible for any information contained herein, except for the information under the captions “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION — The Authority,” as such information applies to the Authority.

**IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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#### **CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS LIMITED OFFERING MEMORANDUM**

Certain statements included or incorporated by reference in this Limited Offering Memorandum constitute “forward-looking statements.” Such statements generally are identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions “RISK FACTORS,” and APPENDIX A – “CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE” in this Limited Offering Memorandum. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Borrower does not plan to issue any updates or revisions to those forward-looking statements if or when changes occur in their expectations or events, conditions or circumstances on which such statements are based.

## NOTICE TO INVESTORS

Each purchaser of any Bond or ownership interest therein will be deemed to have acknowledged, represented, warranted, and agreed with and to the Authority, the Borrower, the Underwriter and the Trustee as follows:

1. That the Bonds are payable solely from certain revenues derived by the Authority under the Loan Agreement from amounts received by the Trustee pursuant to the Intercept, and from certain funds and accounts established and maintained pursuant to the Indenture;

2. That it is an Approved Institutional Buyer or an Accredited Investor and that it is purchasing the Bonds for its own account and not with a view to, or for offer or sale in connection with any distribution thereof in violation of the Securities Act or other applicable securities laws;

3. That the Bonds (a) have not been registered under the Securities Act and are not registered or otherwise qualified for sale under the “blue sky” laws and regulations of any state, (b) will not be listed on any stock or other securities exchange, and (c) may not be readily marketable; and

4. That such purchaser acknowledges that none of the Authority or any of its Board members, officers or employees takes any responsibility for, and the purchaser is not relying upon any such parties with respect to the information appearing anywhere in this Limited Offering Memorandum, other than the information under the headings “THE AUTHORITY,” and “ABSENCE OF MATERIAL LITIGATION — The Authority” (the “Authority’s Portion” of the Limited Offering Memorandum) and that none of such parties have participated in the preparation of this Limited Offering Memorandum;

5. That such purchaser acknowledges that the Bonds and beneficial ownership interests therein may only be transferred to Approved Institutional Buyers and Accredited Investors.

6. Acknowledge that the Authority, the Borrower, the Trustee, the Underwriter and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

See “TRANSFER RESTRICTIONS” herein.

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**LIMITED OFFERING MEMORANDUM**

**\$15,775,000**

**CALIFORNIA SCHOOL FINANCE AUTHORITY  
SCHOOL FACILITY REVENUE BONDS  
(ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS – 2023 UNION LLC  
PROJECT)**

**\$15,690,000**

**2013 Series A (Tax-Exempt)**

**\$85,000**

**2013 Series B (Taxable)**

**INTRODUCTION**

**General**

This Limited Offering Memorandum, including the cover page and Appendices hereto (the “Limited Offering Memorandum”), is provided to furnish information with respect to the sale and delivery of \$15,690,000 aggregate principal amount of School Facility Revenue Bonds (Alliance for College-Ready Public Schools – 2023 Union LLC Project), 2013 Series A (Tax-Exempt) (the “Tax-Exempt Bonds”) of the California School Finance Authority (the “Authority”) and \$85,000 aggregate principal amount of School Facility Revenue Bonds (Alliance for College-Ready Public Schools – 2023 Union LLC Project), 2013 Series B (Taxable) (the “Taxable Bonds” and together with the Tax-Exempt Bonds, the “Bonds”). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture or the Lease (each defined below). See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL BOND DOCUMENTS – THE LEASE” herein.

**The Bonds**

The Bonds will be issued pursuant to the Constitution and laws of the State of California and particularly under and pursuant to 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 of California) (the “Law”), and an Indenture, dated as of October 1, 2013 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., San Francisco, California, as trustee (the “Trustee”). The Bonds will bear interest on January 1 and July 1 of each year, commencing January 1, 2014 (each, an “Interest Payment Date”) and will be subject to optional, mandatory and extraordinary redemption prior to maturity as set forth under “THE BONDS – Redemption” herein. The proceeds of the Bonds will be loaned to 2023 Union LLC, a California limited liability company (the “Borrower”) whose sole member is Alliance for College-Ready Public Schools Facilities Corporation, a California nonprofit public benefit corporation (the “Sole Member”), pursuant to a Loan Agreement, dated as of October 1, 2013 (the “Loan Agreement”), between the Authority and the Borrower. The proceeds of such loan will be used, along with other available funds, to: (i) refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of a public charter high school facility located at 2023 South Union Avenue, in the City of Los Angeles, California (the “Facility”) to be leased by the School, to operate a charter school managed by Alliance for College-Ready Public Schools, a California non-profit public benefit corporation (“Alliance”); (ii) finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of land and facilities located throughout the Cities of Los Angeles and Huntington Park, California, which are generally owned by LLCs, the sole member of each being the Sole Member or Alliance, and operating as public charter schools that is provided certain operational services by Alliance and (iii) pay costs of issuance of the Bonds. See APPENDIX A – “CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE” herein.

## **Security for the Bonds**

The Bonds will be payable out of Payments (as defined below) under the Indenture, consisting primarily of Loan Repayments under the Loan Agreement. The obligations of the Borrower under the Loan Agreement are secured by: (i) the rent payments received under the Lease (as defined below) (ii) real property described in the Deed of Trust (as defined below) on the Facility and (iii) if necessary, the Reserve Account. The Reserve Account will be funded initially by proceeds of a Charter School Facilities Credit Enhancement Grant awarded to the Borrower by the Authority. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

## **The Borrower and the Sole Member**

The Borrower is a limited liability company, the sole member of which is Alliance for College-Ready Public Schools Facilities Corporation (the “Sole Member”). The Sole Member is a recently formed California nonprofit public benefit corporation formed as a support organization for charter schools formed and controlled by Alliance. The Sole Member has received a determination letter from the Internal Revenue Service recognizing it as an entity described in Section 501(c)(3) of the Code.

The Borrower is a single purpose entity with no assets other than the Facility and its rights under the Lease, which have been assigned to the Trustee. The Borrower was recently formed for the purpose of owning the Facility and is not expected to have any other assets or revenue available to it to make payments due under the Loan Agreement. Therefore no financial information with respect to the Borrower has been provided in this Limited Offering Memorandum.

## **Alliance**

Alliance is a California nonprofit public benefit corporation formed in 1999 and currently acts as a charter school management organization. Alliance oversees 21 middle and high schools (including the School) in the Los Angeles Unified School District with over 9,439 students. Alliance is responsible for the School, the Borrower and the Sole Member. Alliance also will oversee the School pursuant to a Management Services Agreement. However, neither Alliance nor the Sole Member is a party to the Loan Agreement, the Lease or any other document securing the Bonds and neither Alliance nor the Sole Member has any liability with respect thereto. Alliance has agreed to subordinate payment of its management fee to the obligations of the School under the Lease. See APPENDIX A – “CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE” herein.

## **The School**

The Alliance Gertz-Ressler/Richard Merkin 6-12 Complex is a California nonprofit public benefit corporation and charter school under the Charter School Law. For more complete information about the School, see APPENDIX A – “CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE – THE SCHOOL” herein.

## **THE AUTHORITY**

The Authority is a public instrumentality of the State of California created pursuant to provisions of the Act. The Authority is authorized to issue the Bonds under the Act and to make the loan contemplated by the Loan Agreement and to secure the Bonds by a pledge of payments received by the Authority pursuant to the Loan Agreement and certain other sources of payments as provided in the Indenture.

The Authority has entered into, sold and delivered obligations, and will in the future enter into, sell and deliver obligations, other than the Bonds, which other obligations are and will be secured by instruments separate and apart from the Indenture and the Loan Agreement. The holders of such obligations of the Authority have no claim on the security for the Bonds, and the owners of the Bonds will have no claim on the security for such other obligations issued by the Authority.

**PROJECT**

A portion of the proceeds of the Bonds will be used to (a) refinance existing debt of the Borrower, proceeds of which loans were originally used to finance and refinance the original acquisition and construction of the School at 2023 South Union Avenue, in the City of Los Angeles, California, the location of the Facility, (b) acquire and install a Wi-Fi System to be owned by the Borrower for the use of the School and the twelve other schools managed by Alliance, and (c) acquire land and improvements not currently owned by the Borrower. The proceeds of the Bonds will be allocated to the Project components as follows:

(a) Refinance of Borrower Loans .....	\$9,305,818
(b) Wi-Fi System .....	2,107,524
(c) Land and Improvements.....	<u>3,770,950</u>
Total.....	\$15,184,292

As a component of its development strategy, Alliance has historically provided, and expects to continue to provide, funding, including by leveraging assets, in order to finance development of new and existing facilities for schools managed by Alliance. Consistent with this strategy, \$3,770,950 of the proceeds of the Bonds will be used to acquire assets (the “Non-Secured Projects”) that (a) will not be subject to any security interest for the benefit of the Bondholders and (b) revenues from which are excluded from the Gross Revenues of the Borrower. The Non-Secured Projects are the acquisition of the property at 5886 Compton Avenue in Los Angeles to be used as the campus for Alliance College-Ready Middle Academy #9 and the construction and renovations to facilities housing schools managed by Alliance other than the Facility. There are no restrictions on transfer or disposition by the Borrower relating to the Non-Secured Projects.

**THE FACILITY**

The Facility is located at 2023 South Union Avenue in the City of Los Angeles and is the home to the School. The Facility provides capacity to serve a total of approximately 1,000 students. See “APPENDIX A – CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE” herein for more detailed description of the Facility.

Alliance obtained an appraisal report for the fee simple interest (the “Appraisal”) for the Facility. The Appraisal was conducted by Marshall & Stevens Incorporated and concluded that the appraised value of the Facility was \$18,860,000 as of September 5, 2013. Real estate appraisals estimate the fair market value of property at one point in time based on a number of assumptions and limiting conditions described therein. Therefore, there can be no assurance that the Trustee could realize the estimated value set forth above upon the sale of the Facility following an event of default.

## THE BONDS

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

### **General**

The Bonds are being issued pursuant to the Indenture securing the Bonds in the aggregate principal amount set forth on the cover of this Limited Offering Memorandum. The Bonds will be issued as registered Bonds in denominations of \$25,000 and any integral multiple of \$5,000 in excess thereof. The Bonds will be dated the date of issuance and will bear interest at the rate set forth on the inside cover page hereof from their dated date. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable in arrears on each Interest Payment Date. The Bonds will mature in the amounts and in each of the years as set forth on the inside cover page hereof.

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

The principal of and interest on the Bonds will be payable in lawful money of the United States of America upon surrender at the principal corporate trust office of the Trustee. The interest on any Bond will be payable to the person whose name appears on the registration books of the Trustee as the registered owner thereof as of the close of business on the fifteenth day of the calendar month next preceding the Interest Payment Date, whether or not such day is a Business Day, (the “Record Date”), such interest to be paid by check mailed by first class mail, postage prepaid, on the Interest Payment Date, to the registered owner at his or her address as it appears on such registration books. Notwithstanding the foregoing, however, any holder of all the Bonds and any holder of \$1,000,000 or more in an aggregate principal amount of the Bonds will be entitled to receive payments of interest on the Bonds held by it by wire transfer of immediately available funds to such bank or trust company located within the United States of America as such holder will designate in writing to the Trustee by the first Record Date for such payment. So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable in same day funds by the Trustee to Cede & Co., as nominee for the Depository.

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for the Bonds set forth on the inside cover of this Limited Offering Memorandum, and will be deposited with

DTC. For additional information regarding DTC and its book-entry only system, see APPENDIX E – “BOOK-ENTRY SYSTEM” herein.

### **Transfer and Exchange of Bonds**

The registration of any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Indenture, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee will require the payment by the Holder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer, and there will be no other charge to any Holder for any such transfer.

Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee for a like aggregate principal amount of the Bonds of the same maturity of other authorized denominations. The Trustee will require the payment by the Holder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there will be no other charge to any Holder for any such exchange. No exchange of Bonds will be required to be made during the period established by the Trustee for selection of Bonds for redemption and after a Bond has been selected for redemption.

The Trustee will not be required to register the transfer of any Bond which has been selected for redemption in whole or in part, from and after the day of mailing of a notice of redemption of such Bond selected for redemption in whole or in part.

Transfer of the Bonds is subject to certain restrictions. See “TRANSFER RESTRICTIONS” herein for details of such restrictions.

### **Redemption**

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

*Extraordinary Optional Construction Related Redemption.* The Bonds are subject to redemption in part prior to their stated maturity, at the option of the Borrower, from amounts transferred from the Project Fund following Completion of the Project as provided in the Indenture.

*Optional Redemption.* The Bonds are also subject to redemption prior to their respective stated maturities, at the option of the Borrower from any amounts in the Redemption Fund, in whole or in part on any date on or after July 1, 2023, at a redemption price equal to 100% of the principal amount of Bonds called for redemption, plus accrued interest to the date fixed for redemption.

*Mandatory Sinking Account Redemption.* The Bonds are also subject to redemption prior to their respective stated maturities in part, by lot, from Mandatory Sinking Account Payments pursuant to the Indenture in the following amounts and on the following dates:

**Term Bonds Maturing July 1, 2023**

<b>Mandatory Sinking Account Payment Date</b>	<b>Principal Amount</b>
July 1, 2014	\$ 350,000
July 1, 2015	155,000
July 1, 2016	160,000
July 1, 2017	170,000
July 1, 2018	180,000
July 1, 2019	190,000
July 1, 2020	200,000
July 1, 2021	210,000
July 1, 2022	220,000
July 1, 2023*	230,000
<b>Total</b>	<b>\$2,065,000</b>

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\* Final Maturity.

**Term Bonds Maturing July 1, 2033**

<b>Mandatory Sinking Account Payment Date</b>	<b>Principal Amount</b>
July 1, 2024	\$ 245,000
July 1, 2025	260,000
July 1, 2026	275,000
July 1, 2027	290,000
July 1, 2028	310,000
July 1, 2029	325,000
July 1, 2030	345,000
July 1, 2031	365,000
July 1, 2032	390,000
July 1, 2033*	410,000
<b>Total</b>	<b>\$3,215,000</b>

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\* Final Maturity.

### Term Bonds Maturing July 1, 2043

<b>Mandatory Sinking Account Payment Date</b>	<b>Principal Amount</b>
July 1, 2034	\$ 435,000
July 1, 2035	465,000
July 1, 2036	495,000
July 1, 2037	525,000
July 1, 2038	560,000
July 1, 2039	595,000
July 1, 2040	630,000
July 1, 2041	670,000
July 1, 2042	710,000
July 1, 2043*	755,000
<b>Total</b>	<b>\$5,840,000</b>

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\* Final Maturity.

### Term Bonds Maturing July 1, 2048

<b>Mandatory Sinking Account Payment Date</b>	<b>Principal Amount</b>
July 1, 2044	\$ 805,000
July 1, 2045	855,000
July 1, 2046	910,000
July 1, 2047	970,000
July 1, 2048*	1,030,000
<b>Total</b>	<b>\$4,570,000</b>

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\* Final Maturity.

*Notice of Redemption.* In connection with the redemption of the Bonds pursuant to the Indenture (other than mandatory sinking account redemption), the Borrower shall give notice of redemption to the Trustee (with a copy to the Trustee) not less than thirty (30) days prior to the redemption date. Notice of redemption of any Bonds shall be given by the Trustee upon the written request of the Borrower. Notice of any redemption of Bonds shall be mailed postage prepaid, not less than twenty-five (25) nor more than sixty (60) days prior to the redemption date (i) by first class mail to the respective Holders thereof at the addresses appearing on the bond registration books described in the Indenture, and (ii) as may be further required in accordance with the Continuing Disclosure Agreement (a copy of the form of which is attached hereto as APPENDIX D). Each notice of redemption shall contain all of the following information: (a) the date of such notice; (b) the name of the Bonds and the date of issue of the Bonds; (c) the redemption date; (d) the redemption price; (e) the dates of maturity of the Bonds to be redeemed; (f) if less than all of the Bonds of any maturity are to be redeemed, the distinctive numbers of the Bonds of each maturity to be redeemed; (g) in the case of Bonds redeemed in part only, the respective portions of the principal amount of the Bonds of each maturity to be redeemed; (h) the CUSIP number, if any, of each maturity of Bonds to be redeemed; (i) a statement that such Bonds must be surrendered by the Holders at the Principal Corporate Trust Office of the Trustee, or at such other place or places designated by the Trustee; (j) a statement that such redemption is conditioned upon the receipt by the Trustee, on or

prior to the redemption date, of moneys sufficient to pay the redemption price or upon the happening of such other event as shall be specified therein, and if such moneys shall not have been so received, said notice shall be rescinded and the redemption shall be cancelled; (k) a statement that any such redemption notice can be rescinded as provided in the Indenture; and (l) notice that further interest on such Bonds, if any, will not accrue from and after the designated redemption date.

Such redemption notices may state that no representation is made as to the accuracy or correctness of the CUSIP numbers provided therein or on the Bonds. If money is not received as described in subsection (j) above, the Trustee, within a reasonable time after the date on which such redemption was to occur, give notice to the persons and in the manner in which the notice of redemption was given, that such money's were not so received and that there will be no redemption of the Bonds pursuant to the notice of redemption. Failure of the Trustee to give such notice or any defect therein shall not in any way impair or affect the validity of the proceedings for redemption.

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

Notice of redemption having been given, and the redemption price of the Bonds called for redemption being on deposit or otherwise available to the Trustee, the Bonds designated for redemption will become due and payable on the specified redemption date and interest, if any, will cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds will be redeemed and paid at the redemption price thereof out of the money provided therefor. The Holders of such Bonds so called for redemption after such redemption date will look for the payment of such Bonds and the redemption premium thereon, if any, only to the escrow fund established for such purpose. All Bonds redeemed will be cancelled therewith by the Trustee and will not be reissued.

*Right to Rescind Notice.* Upon oral notice promptly confirmed by written notice from the Borrower that the Borrower has cured the conditions that caused the Bonds to be subject to extraordinary redemption, the Borrower may rescind any extraordinary redemption and notice thereof on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the Holders of the Bonds so called for redemption, with a copy to the Trustee. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the Holder of any Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

*Funds for Redemption.* Prior to or on the redemption date of any Bonds there will be available in the Redemption Fund, or held in trust for such purpose as provided by law, monies for the purpose and sufficient to redeem, at the premiums payable as in the Indenture provided, the Bonds designated in said notice of redemption. Such monies so set aside in the Redemption Fund or in the escrow fund established for such purpose will be applied on or after the redemption date solely for payment of principal of and premium, if any, on the Bonds to be redeemed upon presentation and surrender of such Bonds, provided that all monies in the Redemption Fund shall be used for the purposes established and permitted by law. Any interest due on or prior to the redemption date will be paid from the Redemption Fund, unless otherwise provided for to be paid from an escrow fund established for such purpose. If, after all of the Bonds have been redeemed and cancelled or paid and cancelled, there are monies remaining in the

Redemption Fund or otherwise held in trust for the payment of redemption price of the Bonds, said monies will be held in or returned or transferred to the Redemption Fund for payment of any outstanding Bonds of the Borrower payable from said fund; provided, however, that if said monies are part of the proceeds of refunding Bonds of the Borrower, said monies will be transferred to the fund created for the payment of principal of and interest on such Bonds. If no such refunding Bonds of the Borrower are at such time outstanding, said monies will be transferred to the general fund of the Borrower as provided and permitted by law.

*Selection of Bonds for Redemption.* When any redemption is made pursuant to any of the provisions of the Indenture and less than all of the Outstanding Bonds are to be redeemed, the Trustee will select the Bonds to be redeemed from the Outstanding Bonds not previously called for redemption, by lot within a maturity and, if from more than one maturity, in inverse order of maturity or in such other order of maturity as shall be specified in a Request of the Borrower and the Mandatory Sinking Account Payments will be reduced pro-rata. In no event will Bonds be redeemed in amounts other than whole multiples of Authorized Denominations. For purposes of redeeming Bonds in denominations greater than minimum Authorized Denominations, the Trustee will assign to such Bonds a distinctive number for each such principal amount and, in selecting Bonds for redemption by lot, will treat such amounts as separate Bonds.

## **Defeasance**

*Discharge of Indenture.* Bonds may be paid or caused to be paid by the Authority in any of the following ways, provided any other sums payable under the Indenture by the Authority have also been paid or caused to be paid: (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 to pay or redeem Bonds Outstanding; or (iii) by delivering to the Trustee, for cancellation by it, all Bonds Outstanding.

If all Bonds then Outstanding are paid or caused to be paid as provided above and all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority, and notwithstanding that any Bonds will not have been surrendered for payment, the Indenture and the pledge of Payments made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture will cease, terminate, become void and be completely discharged and satisfied, except as provided in the Indenture. In such event, upon request of the Authority, the Trustee will cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and will execute and deliver to the Authority 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 Authority 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.

Under no circumstances will any amounts on deposit in the Grant Reserve Subaccount be applied to pay or cause to be paid principal of or interest on the Bonds pursuant to the Indenture.

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

provided further, however, that the provisions of the Indenture as described under “–Payments of Bonds after Discharge of Indenture” below will apply in all events.

The Bonds may at any time be surrendered to the Trustee for cancellation by the Authority or the Borrower, which may have been 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 Authority or the Borrower) to apply such money to the payment of such principal of and interest on such Bonds and provided, further, that the Trustee will have received (i) an Opinion of Bond Counsel to the effect that such deposit will not cause interest on the 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 Trustee 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 cost 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.

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## **TRANSFER RESTRICTIONS**

The Bonds are to be offered and sold (including in secondary market transactions) only to Approved Institutional Buyers (defined as a “qualified institutional buyer” under Rule 144A of the Securities Act of 1933) or Accredited Investors (as defined in Regulation D of the Securities Act of 1933). The Indenture contains provisions limiting transfers of the Bonds and beneficial ownership interests in the Bonds only to Approved Institutional Buyers and Accredited Investors and requiring that the Authorized Denominations of the Bonds be \$25,000 and any multiple of \$5,000 in excess thereof. In addition, the face of each Bond will contain a legend indicating it may only be registered in the name of, or transferred to, Approved Institutional Buyers and Accredited Investors, and that by acceptance of such Bond, the Holder represents that it is an Approved Institutional Buyer or is an Accredited Investor. See “RISK FACTORS – Purchases and Transfers of Bonds Restricted to Approved Institutional Buyers and Accredited Investors” herein.

The foregoing limitation will cease to apply (without notice to or consent of any Bondholder) upon and after receipt by the Trustee from the Borrower of a rating letter by Fitch, S&P or Moody’s indicating that the Bonds are rated “A-” or “A3”, as applicable, or better. The Trustee will as soon as practicable, but in no event more than ten calendar days, after receipt by the Trustee, notify each Bondholder that the restrictions set forth in the Indenture requiring that the Beneficial Owners of the Bonds be Approved Institutional Buyers or Accredited Investors will be of no further force or effect.

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## ESTIMATED SOURCES AND USES OF FUNDS

### Sources of Funds

Tax-Exempt Bonds Par Amount	\$15,690,000
Taxable Bonds Par Amount	85,000
Net Original Issuance Premium	6,655
Borrower Equity	200,000
DSRF Grant (CSFA)	<u>1,099,440</u>
<b>Total</b>	<b><u>\$17,081,095</u></b>

### Uses of Funds

Land and Improvements outside Facility	\$3,770,950
Wi-Fi System	2,107,524
Refinancing of Loans on Facility	9,305,818
Grant Funded Reserve Subaccount	1,099,440
Repair and Replacement Fund	200,000
Costs of Issuance <sup>§</sup>	<u>597,363</u>
<b>Total</b>	<b><u>\$17,081,095</u></b>

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<sup>§</sup> Includes legal, printing, rating, underwriting discount and other miscellaneous costs of issuance. The proceeds of the Taxable Bonds will all be used to pay Costs of Issuance.

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## DEBT SERVICE SCHEDULE

The annual debt service payment requirements of the Bonds are set forth in the table below.

<b>Period Ending July 1</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$435,000	\$663,049.20	\$1,098,049.20
2015	155,000	943,337.50	1,098,337.50
2016	160,000	935,200.00	1,095,200.00
2017	170,000	926,800.00	1,096,800.00
2018	180,000	917,875.00	1,097,875.00
2019	190,000	908,425.00	1,098,425.00
2020	200,000	898,450.00	1,098,450.00
2021	210,000	887,950.00	1,097,950.00
2022	220,000	876,925.00	1,096,925.00
2023	230,000	865,375.00	1,095,375.00
2024	245,000	853,300.00	1,098,300.00
2025	260,000	838,600.00	1,098,600.00
2026	275,000	823,000.00	1,098,000.00
2027	290,000	806,500.00	1,096,500.00
2028	310,000	789,100.00	1,099,100.00
2029	325,000	770,500.00	1,095,500.00
2030	345,000	751,000.00	1,096,000.00
2031	365,000	730,300.00	1,095,300.00
2032	390,000	708,400.00	1,098,400.00
2033	410,000	685,000.00	1,095,000.00
2034	435,000	660,400.00	1,095,400.00
2035	465,000	632,995.00	1,097,995.00
2036	495,000	603,700.00	1,098,700.00
2037	525,000	572,515.00	1,097,515.00
2038	560,000	539,440.00	1,099,440.00
2039	595,000	504,160.00	1,099,160.00
2040	630,000	466,675.00	1,096,675.00
2041	670,000	426,985.00	1,096,985.00
2042	710,000	384,775.00	1,094,775.00
2043	755,000	340,045.00	1,095,045.00
2044	805,000	292,480.00	1,097,480.00
2045	855,000	240,960.00	1,095,960.00
2046	910,000	186,240.00	1,096,240.00
2047	970,000	128,000.00	1,098,000.00
2048	1,030,000	65,920.00	1,095,920.00
<b>Total</b>	<b>\$15,775,000</b>	<b>\$22,624,376.70</b>	<b>\$38,399,376.70</b>

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

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

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

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

### **Payments under the Indenture and State Intercept**

The Authority has executed and delivered the Indenture and absolutely assigns to the Trustee all of its rights, title and interest in and to the Payments (as defined below), the Loan Agreement, the Deed of Trust, the Lease and all moneys and investments in the funds established thereunder (except the Rebate Fund, as established by the Indenture) for the equal and proportionate benefit, security and protection of all present and future registered owners of the Bonds. The Bonds are payable equally and ratably solely from the Payments under the Indenture. "Payments", under the Indenture, means (i) all moneys (except any money received to be used for the payment of Administrative Fees and Expenses) received by the Trustee with respect to the Intercept, (ii) all moneys, if any, received by the Trustee directly from, or on behalf of, the Borrower, pursuant to the Loan Agreement (excluding Additional Payments), and (iii) all income derived from the investment of any money in any fund or account established pursuant to the Indenture. See APPENDIX C – "SUMMARY OF PRINCIPAL BOND DOCUMENTS – THE INDENTURE" herein.

The Borrower will pay, or cause to be paid, the Loan Repayments from the Gross Revenues of the Borrower, including the Rental Payments, or from any other legally available funds of the Borrower, without any further notice thereof except as may be specifically required by the Loan Agreement. "Rental Payments" under the Indenture means the amounts payable pursuant to the Lease by the School to the Borrower for the use and occupancy of the Facility, excluding Expenses (as defined in the Lease). "Loan Repayments" under the Indenture means the amounts due and payable from the Borrower to the Authority pursuant to the Loan Agreement. "Gross Revenues," under the Indenture, 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; provided, however, that Gross Revenues will not

include any income or revenue derived from the ownership, operation or disposition of the Non-Secured Projects.

Simultaneously with the issuance of the Bonds, the School will deliver the Intercept Notice (as defined below) to the State Controller, including a schedule of transfers to the Trustee for certain amounts due and payable under the Indenture, including Additional Payments, and identifying the Trustee as the recipient. "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 any School 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 set forth in the applicable Lease, as the same may be amended, supplemented or restated from time to time. "Additional Payments" include, among other things, to the extent not paid from Loan Repayments, ordinary administrative fees and expenses of the Trustee and the Authority (including fees and expenses of their counsel and consultants) and fees and expenses of the Rating Agency. However, no moneys deposited in the Revenue Fund pursuant to the Intercept will be deposited to the Repair and Replacement Fund or the Rebate Fund.

The School will, not later than the twentieth (20th) calendar day of any month in which payment is scheduled, amend, supplement or restate the Intercept Notice and deliver such to the State Controller from time to time as necessary or appropriate (including without limitation as a result of redemption prior to maturity or cessation of the Subsidy Payments) to indicate transfers to the Trustee to pay a portion of the amounts due under the Loan Agreement and other costs necessary or incidental to the financing pursuant to the Act, as they come due and to cure any delinquency in payment of such amounts. If at any time the Intercept Notice is amended, supplemented or restated for any reason, The School will promptly provide the Authority and the Trustee with a copy of such amended or supplemented Intercept Notice. The Intercept Notice may provide additional amounts payable to the Trustee for purposes set forth in the Indenture; provided the School will not grant preference or any prior right of funding access or security in respect of the State Apportionment to any other payment indicated in the Intercept Notice or any other notice delivered pursuant to section 17199.4 of the Education Code.

There is no assurance given to Bondholders that the apportionment under the Intercept will be provided in amounts sufficient and at such times as would provide for the Loan Repayments. The State is undertaking no obligation to provide any level of such apportionment in respect of The School. The State may delay, alter, amend or eliminate such funding at any time.

### **Allocation of Revenues**

Promptly upon receipt, the Trustee will deposit the Payments to the Revenue Fund. On or before March 25<sup>th</sup>, June 25<sup>th</sup>, September 25<sup>th</sup> and December 25<sup>th</sup> of each year, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Revenue Fund) and then to the Repair and Replacement Fund, to the Rebate Fund, the following amounts, in the following order of priority, the requirements of each such account or fund (including the making up of any deficiencies in any such account resulting from lack of Payments sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account or fund subsequent in priority; provided, however, no moneys deposited in the Revenue Fund pursuant to the Intercept shall be deposited to the Repair and Replacement Fund or the Rebate Fund:

(1) To the Interest Account, one-half of the aggregate amount of interest becoming due and payable on the next succeeding Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest;

(2) To the Principal Account, one-fourth of the aggregate amount of principal becoming due to redeem or pay, until the balance in said Principal Account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments; provided that from the date of delivery of the Bonds until the first Principal Payment Date with respect to the Bonds (if less than twelve months), transfers to the Principal Account shall be sufficient on a monthly pro rata basis to pay the principal becoming due and payable on said Principal Payment Date;

(3) To the Grant-Funded Reserve Subaccount of the Reserve Account, (a) the greater of (i) the amount designated for deposit to the Grant-Funded Reserve Subaccount of the Reserve Account in a written direction of the Borrower, and (ii) one-half of the aggregate amount of each prior withdrawal from the Grant-Funded Reserve Subaccount of the Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn), and (b) in the event the balance in said subaccount shall be less than the amount deposited in such subaccount due to valuation of the Eligible Securities deposited therein, the amount necessary to increase the balance in said account to an amount at least equal to the amount deposited in such subaccount (until deposits on account of such valuation deficiency are sufficient to increase the balance in said account to said amount);

(4) To the Bond Reserve Subaccount of the Reserve Account, (a) the greater of (i) the amount designated for deposit to the Bond Reserve Subaccount of Reserve Account in a written direction of the Borrower, and (ii) one-fourth of the aggregate amount of each prior withdrawal from the Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn), provided that no deposit need be made into the Reserve Account if the balance in said account is at least equal to the Reserve Account Requirement, and (b) in the event the balance in said account shall be less than the Reserve Account Requirement due to valuation of the Eligible Securities deposited therein, the amount necessary to increase the balance in said account to an amount at least equal to the Reserve Account Requirement (until deposits on account of such valuation deficiency are sufficient to increase the balance in said account to said amount);

(5) To the Repair and Replacement Fund, (a) the greater of (i) the amount designated for deposit in the Repair and Replacement Fund in a written direction of the Borrower, and (ii) one-sixth of the aggregate amount of each prior withdrawal from the Repair and Replacement Fund, provided that no deposit need be made into the Repair and Replacement Fund if the balance in said account is at least equal to the Repair and Replacement Requirement, and (b) in the event the balance in said account shall be less than the Repair and Replacement Requirement due to valuation of the Eligible Securities deposited therein, the amount necessary to increase the balance in said account to an amount at least equal to the Repair and Replacement Requirement (until deposits on account of such valuation deficiency are sufficient to increase the balance in said account to said amount);

(5) To the Rebate Fund, such amounts as are required to be deposited therein by the Indenture (including the Tax Certificate); and

Moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred on January 1 and July 1 of each year, commencing January 1, 2014 by the Trustee to the Borrower free and clear of the lien of this Indenture.

## **Application of Reserve Account**

The Reserve Account deposit will be made using grant funds that are governed by the Charter School Credit Enhancement Program administered by the U.S. Department of Education. The Borrower shall repay all grant funds deposited into the Reserve Account under the Charter School Credit Enhancement Program immediately following the earlier to occur of the final maturity, earlier redemption in full of the Bonds or the date on which no Bonds are Outstanding under the Indenture.

Application of Reserve Account. The Trustee will establish and maintain the Reserve Account. Within the Reserve Account, the Trustee will establish and maintain the Bond Reserve Subaccount and the Grant-Funded Reserve Subaccount. All amounts in the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Account or Principal Account that exists on the date when monies on deposit in the Interest Account or the Principal Account are required to be applied, as provided in the Indenture, or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding; provided, however, that monies and securities held by the Trustee in the Grant-Funded Reserve Subaccount will not be used for the redemption of all Bonds then Outstanding pursuant to the Indenture. The Trustee will draw from the Bond Reserve Subaccount until exhausted prior to drawing from the Grant-Funded Reserve Subaccount.

The Trustee will notify the Authority and the Borrower immediately of any withdrawal from the Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account, which notice will specify the amount of such withdrawal from each of the Bond Reserve Subaccount and the Grant-Funded Reserve Subaccount, if any. The Trustee will notify the Authority immediately of the final maturity, earlier redemption in full of the Bonds or the date on which no Bonds are Outstanding under the Indenture.

Immediately following the earlier to occur of the final maturity, earlier redemption in full of the Bonds or the date on which no Bonds are Outstanding under the Indenture, the Trustee will transfer to the Authority any amounts remaining on deposit in the Grant-Funded Reserve Subaccount. Thereafter the Trustee will close the Grant-Funded Reserve Subaccount.

Amounts on deposit in the Reserve Account will be valued by the Trustee at their fair market value each January 1, April 1, July 1 and October 1, and the Trustee will notify the Borrower of the results of such valuation. If the amount on deposit in the Reserve Account on the first (1st) Business Day following such valuation is less than one hundred percent (100%) of the Reserve Account Requirement, the Borrower has agreed in the Loan Agreement to make the deposits to the Reserve Account required by the Indenture. If the amount on deposit in the Reserve Account on the first (1st) Business Day following such valuation is greater than the Reserve Account Requirement, then (i) the amount of money on deposit in the Grant-Funded Reserve Subaccount greater than \$[INITIAL DEPOSIT] will be paid to the Authority free and clear of the lien of the Indenture and (ii) any additional excess will be withdrawn from the Bond Reserve Subaccount of the Reserve Account and transferred to the Revenue Fund.

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

To secure the payment of the Loan, the Borrower will enter into a Deed of Trust and Assignment of Rents for the Facility owned by it, which will also secure payment and performance of the Borrower's obligations with respect to the Loan Agreement. The Borrower will obtain, at its own cost and expense, an ALTA policy or policies of title insurance regarding the Facility, or an endorsement to such policy at the time of and dated as of the date of issuance of the Bonds in an aggregate amount not less than the aggregate principal amount of the Bonds to be Outstanding after the issuance of the Bonds, payable to the

Trustee, insuring the title of the Borrower to the Facility, subject only to Permitted Liens, issued by a title insurance company qualified to do business in the State. See “RISK FACTORS — Limitations On Value of the Facility and to Remedies Under the Deed of Trust” herein.

## **The Lease**

Under the Lease, the Borrower will lease the Facility to the School until September 30, 2048 (the “Initial Term”) (such date, as it may be extended, “Expiration Date”), at the Rent, upon and subject to all of the terms, covenants and conditions set forth in the Lease. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL BOND DOCUMENTS – THE LEASE” herein for definitions of “Rent,” “Base Rent,” “Additional Rent,” “Expenses” and other terms used in the Lease.

### Covenants.

Lessee covenants and agrees:

(a) *School’s Charter.* To take all reasonable actions to maintain its charter with a sponsoring entity and to take or cause to be taken any and all actions required to renew or extend the term of its charter with a sponsoring entity. As soon as practicable, Lessee covenants to provide Lessor with a copy of any notice received with regards to any sponsoring entity’s intent to renew or extend the term of any such charter or any notice of any issues which if not corrected or resolved could lead to termination or nonrenewal of any such charter. If such charter is terminated or not renewed, Lessee will use its best efforts, and will cooperate with Lessor, to assign this Lease to an entity that maintains a charter with a sponsoring entity. Further, Lessee will maintain accreditation status under the Charter Schools Act of 1992, as amended (constituting Part 26.8 of Division 4 of Title 2 of the California Education Code) and related administrative rules and, to the extent required to maintain the approval of its charter petition by the sponsoring entity, meet the student performance accountability standards stated in its charter petition.

(b) *Limitation on Disposition of Property, Plant and Equipment.* Without the consent of the Trustee, not to dispose or transfer any property, plant and equipment consisting of all or any part of the Facility, except for disposition or transfers:

(i) of property, plant and equipment no longer necessary for the operation of the Facility;

(ii) 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

(iii) of property, plant and equipment sold or disposed of at a price equal to their fair market value.

(c) *No Additional Debt.* Not to incur further or additional Indebtedness of Lessee payable out of the Gross Revenues of the School or to encumber any of the assts attributable to and necessary for the operation of the School.

As used in the covenants of the Lease, “Indebtedness of Lessee” means any indebtedness or obligation of the Lessee (other than accounts payable and accruals), as determined in accordance with generally accepted accounting principles, including obligations under the Lease, installment purchase contracts, conditional sales contracts or other title retention contracts or rental obligations under leases which are considered capital leases under generally accepted accounting principles, payable from the Gross Revenues of the School; provided, that “Indebtedness of the Lessee” shall not include nonrecourse

indebtedness or indebtedness in a principal amount of up to \$1,000,000 that is subordinate to the obligations of Lessee under the Lease.

Financial Reporting.

Lessee agrees to provide Lessor, and upon written request, the Trustee, the following information:

- (a) quarterly unaudited financial information of the School not later than 60 days from the end of each quarter,
- (b) annual budgets of the School within 60 days of their adoption,
- (c) financial information of the School within 30 days of receipt by the Lessee of audited financial statements of the School approved by the governing board of the Lessee, which audited financial statements shall include calculations of Cash on Hand and Debt Service Coverage Ratio as described in the Lease;
- (d) the results of any federal or State of California testing within 60 days of receipt by the governing board of the School,
- (e) within 14 days of receipt, any notification or report of any potential or alleged violation of the charter for the School, and
- (f) such other information as may be reasonably requested by Lessor or Lessor on behalf of the Trustee.

Assignment to Trustee; Deposit of Rental Payments.

Lessee acknowledges and consents to the assignment by Lessor of Lessor's rights under the Lease to the Trustee and covenants and agrees to deposit all Base Rent and Additional Rent under the Lease with the Trustee under the Indenture. Lessee covenants to pay to the Trustee the Base Rent and Additional Rent due under the Lease on or before the fifteenth (15th) day of each month. In accordance with the terms of the Lease, Lessee also agrees to provide an Intercept Notice to the State Controller requesting that the amounts specified therein be transferred to the Trustee.

Limitation on Liens on Gross Revenues of the School.

Except as set forth above, Lessee covenants and agrees that it will not create, assume or suffer to exist any lien upon the Gross Revenues of the School and that, if a subordinate security interest is created or assumed upon the Gross Revenues of the School by the Lessee, the Lessee will make or cause to be made effective a provision whereby the obligations of the Lessee under the Lease will be secured prior to any such indebtedness or other obligation secured by such security interest and that the revenues required by the Intercept Notice to be deposited with the Trustee under the Indenture will continue to be deposited.

Cash on Hand Covenant.

Lessee covenants and agrees to comply with the following Days Cash on Hand requirement. "Days Cash on Hand" means: (i) the sum of Cash and Cash Equivalents or the Lessee, as shown on the Lessee's audited financial statements for each Fiscal Year, and any Sate payments accrued to such Fiscal Year and Schedules to be received within two months following the end of such Fiscal Year ("Cash on Hand"); divided by (ii) the quotient of Operating Expenses, as shown on the audited financial statements

for the preceding Fiscal Year, divided by 365. "Operating Expenses" means fees and expenses of the School, including maintenance, repair expenses utility expenses, administrative and legal, miscellaneous operating expenses, advertising costs, payroll expenses (including taxes), the cost of materials and supplies used for current operations of the School, the cost of vehicles, equipment leases and service contracts, taxes upon the operations of the School, 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 School; provided, however, that "Operating Expenses" shall not include depreciation, amortization or other non-cash expenses nor those expenses which are actually paid from any revenues of the School which are not Gross Revenues of the School, nor payment for improvements to the Facilities which are capitalized for accounting purposes.

The Cash on Hand requirement will be tested as of June 30 in each year, commencing June 30, 2014, and shall be equal to or greater than 45 days for such test date and every year thereafter. The Lessee will employ its auditor to provide the Lessee and Trustee by no later than December 31 of each year, commencing December 31, 2014, with a certification that the Days Cash on Hand requirement has been met as of the preceding June 30 test date. The foregoing is subject to the qualification that if applicable state or federal laws or regulations, or the rules and regulations of agencies having jurisdiction, shall not permit the Lessee to accumulate such level of Cash on Hand, then this covenant shall conform to the then prevailing laws, rules or regulations.

If the Cash on Hand for any testing date is less than 45 days, then, upon the written direction of the Beneficial Owners of a majority in principal amount of the Bonds, Lessee will promptly employ an Independent Consultant acceptable to the Beneficial Owners of a majority in principal amount of the Bonds to review and analyze the operations and administration of the Lessee, submit to the Lessor and Trustee written reports, and make such recommendations as to the operation and administration of the Lessee as such Independent Consultant deems appropriate, including any recommendation as to a revision of the methods of operation of the Lessee. The Lessee agrees to consider any recommendations by the Independent Consultant and, to the fullest extent practicable and allowed by law and consistent with its covenants under the Lease, to adopt and carry out such recommendations.

**Debt Service Coverage Ratio.** Pursuant to the terms of the Loan Agreement, Lessee covenants and agrees to budget for and maintain a Debt Service Coverage Ratio for each Fiscal Year of not less than one point one times (1.10x), commencing with the Fiscal Year ending June 30, 2014. Lessee shall employ its auditor to provide the Trustee by no later than December 31 of each year, commencing December 31, 2014, with a certification of the Debt Service Coverage Ratio as of the end of the preceding Fiscal Year. As used in the Lease, "Debt Service Coverage Ratio" means, for any Fiscal Year, the ratio obtained by dividing the Net Income Available for Debt Service (as defined herein) for such Fiscal Year by the Base Rent under the Lease, as such ratio is certified to by an accountant of Lessee. "Net Income Available for Debt Service" means, for any period of determination thereof, the Gross Revenues of the School (as defined in the Lease) for such period (not including any insurance recoveries), plus the interest earnings on moneys held in the Bond Reserve Subaccount established under the Indenture (but only to the extent that such interest earnings are transferred to the Revenue Fund) minus the total Operating Expenses of the School for such period but excluding (i) interest paid on indebtedness, (ii) any profits or losses which would be regarded as extraordinary items under Generally Accepted Accounting Principles, (iii) gain or loss in the extinguishment of indebtedness of Lessee, (iv) proceeds of the Bonds and any other indebtedness permitted by the Loan Agreement, and (v) proceeds of insurance policies, other than policies for business interruption insurance, maintained by or for the benefit of Lessee, the proceeds of any sale, transfer or other disposition of the Facility or any other of the School's assets by Lessee, and any condemnation or any other damage award received by or owing to Lessee.

If the Debt Service Coverage Ratio for any testing date is less than one point one times (1.10x), then, upon the written direction of the Beneficial Owners of a majority in principal amount of the Bonds, Lessee will promptly employ an Independent Consultant acceptable to the Beneficial Owners of a majority in principal amount of the Bonds to review and analyze the operation and administration of Lessee, submit to the Lessor and Trustee written reports, and make such recommendations as to the operation and administration of Lessee as such Independent Consultant deems appropriate, including any recommendation as to a revision of the methods of operation of Lessee. Lessee agrees to consider any recommendations by the Independent Consultant and, to the fullest extent practicable and allowed by law and consistent with its covenants hereunder, to adopt and carry out such recommendations.

Lessor covenants to maintain a Debt Service Coverage Ratio for each Fiscal Year of not less than one times (1.00x), commencing with the Fiscal Year ending June 30, 2014. If the Lessor fails to meet this covenant, it will be an event of default under the Loan Agreement.

## **CHARTER SCHOOLS IN CALIFORNIA**

### **General**

Under State law, charter schools are largely independent schools operating as part of the public school system under the exclusive control of the officers of the public schools. A charter school located in a unified school district may provide instruction in any of grades K-12, as its charter permits. A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and is usually sponsored by an existing local public school district or county board of education. Specific goals and operating procedures for the charter school are detailed in a “charter” granted by the sponsoring board to the charter organizers.

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

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

Anyone may write a charter. However, for a new charter school (not conversion of existing public schools), charter developers must present a petition to the governing board of the local school district (or other chartering authority) containing the signatures of either: (1) a number of teachers meaningfully interested in teaching at the school equal to at least 50 percent of the number of teachers the charter school estimates will be employed, or (2) a number of parents representing at least 50 percent of the

number of pupils expected to enroll at the school in its first year. For conversion schools, the Charter School Law requires signatures of at least 50 percent of the teachers at the school to be converted. Pupils may not be required to attend a charter school nor may teachers be compelled to teach there. Charters are granted for a maximum term of five years, and may be renewed for new five-year terms without limitation upon satisfaction of certain criteria described below.

Generally, each charter school is funded to its statutory entitlement after the local contribution is taken into account. Local funding comes from the chartering school district or other sponsoring local education agency in lieu of property taxes (generally funded from the school district's own property tax receipts), while the State funds the balance directly through the county office of education. The proportion coming from the State will vary from district to district depending on the amount of local property taxes collected. In addition, charter schools receive State categorical block grant funding and lottery funds based upon pupil attendance, and may be eligible for other special programmatic aid from State and federal grants. The Local Control Funding Formula, which will first be implemented in fiscal year 2013-14, will substantially change the way funds are allocated to charter schools. See "STATE FUNDING OF EDUCATION – General – 2013-14 State Budget" and "STATE FUNDING OF EDUCATION – Allocation of State Funding to Charter Schools" herein. Additionally, charter schools are prohibited from charging tuition under the Charter School Law. See "RISK FACTORS – Specific Risks of Charter Schools" herein.

### **Chartering Authority**

Under the Charter School Law, the local school district governing board serves as the primary chartering authority. A petitioner may seek approval of a charter from a county board of education if the pupils to be served are pupils that would normally be provided direct education and related services by the county office of education. A petitioner may seek approval directly from the State Board of Education only if the State Board of Education finds that the proposed state charter school will provide instructional services of statewide benefit that cannot be provided by a charter school operating in only one school district or county. See "Statewide Benefit Charter Schools" below. Petitioners may request the county board of education or the State Board of Education to review a charter petition if the petition has been previously denied by the local school district governing board.

### **Elements of a Charter Petition**

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

1. A description of the educational program of the charter school.
2. The measurable pupil outcomes identified for use by the charter school.
3. The method by which pupil progress in meeting those pupil outcomes is to be measured.
4. The charter school's governance structure, including parental involvement.
5. The qualifications to be met by individuals employed by the charter school.
6. Procedures to ensure health and safety of pupils and staff.
7. The means by which the charter school will achieve racial and ethnic balance among pupils, reflective of the general population residing in the chartering district.

8. Admission requirements, if applicable.
9. The manner in which annual financial audits will be conducted, and the manner in which audit exceptions and deficiencies will be resolved to the satisfaction of the chartering authority.
10. The procedures by which pupils may be suspended or expelled.
11. Provisions for employee coverage under the State Teachers' Retirement System, the Public Employees' Retirement System, or federal social security.
12. The public school alternatives for pupils residing within the district who choose not to attend charter schools.
13. A description of the rights of any employee of the school district upon leaving the employment of the school district to work in a charter school, and of any rights of return to the school district after employment at a charter school.
14. The procedures to be followed by the charter school and the entity granting the charter to resolve disputes relating to provisions of the charter.
15. A declaration of whether or not the charter school will be deemed the exclusive public school employer of the employees of the charter school for purposes of the Educational Employment Relations Act.
16. A description of the procedures for closure of the school and disposition of assets.

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

### **Charter Management Organizations**

As the number of charter schools operating pursuant to the Charter School Law has increased over time, non-profit organizations have been established, referred to as charter management organizations ("CMOs"), to manage the operations of several charter schools for the purpose of achieving certain economic and operational efficiencies. CMOs centralize or share certain functions and resources among multiple charter schools, including but not limited to accounting, human resources, marketing, purchasing, property management and administration. CMOs may operate at the regional or statewide level. Alliance functions as a CMO for the School. See APPENDIX A – "CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE" herein.

### **Charter Revocation**

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

charter, or (iii) has failed to meet generally accepted accounting principles, or engages in fiscal mismanagement, or (iv) has violated any provision of law. Prior to revoking a charter, the charter granting authority must notify the charter school of the violation, afford the charter school a reasonable opportunity to remedy the violation, and, upon failure to do so, give written notice of intent to revoke and hold a public hearing on the matter. An adverse decision by a school district governing board may be appealed to the county board of education, and an adverse decision by the county board directly or on appeal may be appealed to the State Board of Education (the “State Board”).

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

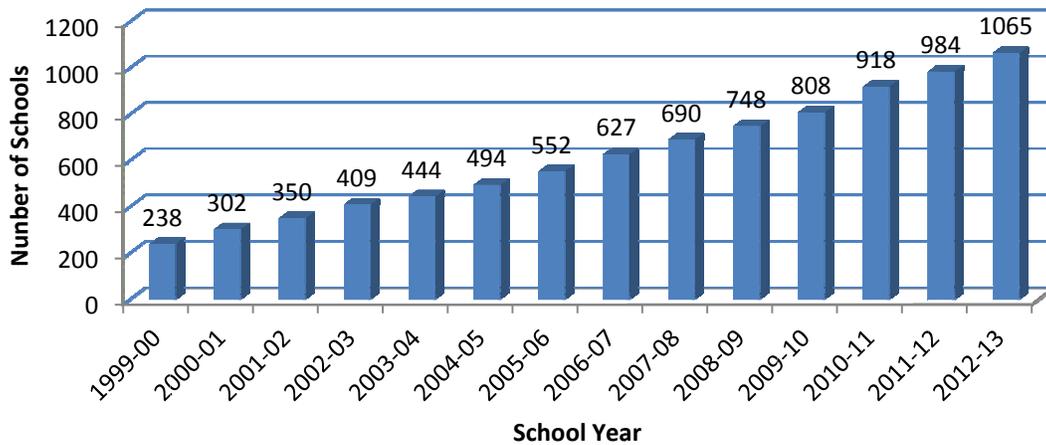
### **Amendments to the Charter School Law**

The Legislature has amended the Charter School Law frequently since its initial adoption in 1992, and legislative and public attitudes are still evolving. The Borrower has no control over State legislative or regulatory decision making that could affect its operations or ongoing funding sources. For example, currently pending legislation affecting the Charter Schools Act and related law include: Assembly Bill 622 (“AB 622”) which would require the posting and updating on the Internet by charter schools and their authorizing entity of their initial and renewal charter petitions, and summaries thereof; and Bill 917 (“AB 917”) which would require that, in addition to the signatures of teachers and administrators, that a charter school petition contain the signatures of a number of nonsupervisory certificated staff and classified employees as well. The Borrower makes no representations as to whether AB 622 or AB 917 will be enacted into law.

### **Growth in Charter Schools in California**

California has the largest concentration of charter schools in the nation with over 484,000 students enrolled in charter schools for the 2012-13 school year, according to the California Charter Schools Association. The California Charter Schools Association also reported that the number of charter schools in California grew by 81 in the 2012-2013 school year, including the addition of 40 in Los Angeles County, bringing the total number of charter schools in California up to 1,065. The total in the Los Angeles Unified School District grew to 228.

## Total Charter Schools in California



*Source:* Public Charter School Dashboard, National Alliance for Public Charter Schools.

## STATE FUNDING OF EDUCATION

### General

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

*State Budget Process.* According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. Historically, the budget required a two-thirds vote of each house of the State Legislature for passage. However, on November 2, 2010, the State’s voters approved Proposition 25, which amended the State Constitution to lower the vote requirement necessary for each house of the State Legislature to pass a budget bill and send it to the Governor. Specifically, the vote requirement was lowered from two-thirds to a simple majority (50% plus one) of each house of the State Legislature. The lower vote requirement also would apply to trailer bills that appropriate funds and are identified by the State Legislature “as related to the budget in the budget bill.” The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. Under Proposition 25, a two-thirds vote of the State Legislature is still required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2013-14 State budget on June 27, 2013. See “Status of 2013-14 State Budget” below.

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

State income tax and other receipts can fluctuate significantly from year to year, depending on economic conditions in the State and the nation. Because funding for education is closely related to overall State income, as described in this section, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. A brief description of the adopted State budget for 2012-13 and the proposed 2013-14 budget is included below; however, no prediction can be made as to how State income or State education funding will vary over the entire term to maturity of the Bonds, and neither the Borrower or the Authority takes any responsibility for informing owners of the Bonds as to any such annual fluctuations. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, currently located at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), and the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board, currently located at <http://emma.msrb.org>. The information referred to is prepared by the respective State agency maintaining each website and not by the Borrower or the Authority, and neither the Borrower nor the Authority can take any responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references. The information referred to above is provided solely for convenience of reference and should not be relied upon in making an investment decision with respect to the Bonds.

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

If, at fiscal year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle-up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98

guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as “maintenance factor.”

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

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years’ Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds from one fiscal year to the next; by permanently deferring the year end apportionment from June 30 to July 2 (which will be paid on July 15 in 2013, as part of Proposition 30, passed by the voters in November of 2012); by suspending Proposition 98 and by proposing to amend the Constitution’s definition of the guaranteed amount and settle-up requirement under certain circumstances. The Governor’s proposed 2013-14 budget reverses many of these trends, for example by eliminating certain deferrals. See “Proposed 2013-14 State Budget” below.

*Legal Challenge to State Funding Education.* On May 20, 2010, a plaintiff class of numerous current California public school students and the Alameda Unified School District, the Alpine Union School District, the Del Norte County Unified School District, the Folsom Cordova Unified School District, the Hemet Unified School District, the Porterville Unified School District, the Riverside Unified School District, the San Francisco Unified School District and the Santa Ana Unified School District, together with the California Congress of Parents, Teachers & Students, the Association of California School Administrators and the California School Boards Association filed suit in Alameda County Superior Court challenging the system of financing for public schools in California as unconstitutional. In *Robles-Wong, et al. v. State of California*, the plaintiffs seek declaratory and injunctive relief, including a permanent injunction compelling the State to abandon the existing system of public school funding and replace it with a system that is based on what is needed to meet the State’s program requirements and the needs of individual students. After a demurrer was sustained with leave to amend on January 14, 2011, a first amended complaint was filed by the plaintiff class on March 16, 2011. A demurrer with leave to amend on the first amended complaint was sustained on July 26, 2011, however, the plaintiffs elected not to amend their complaint within the time provided by the court. Accordingly, the court dismissed all of the plaintiff’s claims and entered a judgment on November 3, 2011. The plaintiffs, on January 24, 2012, filed a notice of appeal to the Court of Appeal of the State of California, First Appellate District, from the judgment entered on November 3, 2011 dismissing the case in its entirety and all orders incorporated therein, including the order entered on July 26, 2011 sustaining the demurrer. The Borrower cannot predict the likelihood of success of such appeal or how such appeal, if successful, could result in a change in how school funding of education is implemented in the State.

*Prohibitions on Diverting Local Revenues for State Purposes.* Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts

through a local Educational Revenue Augmentation Fund (“ERAF”) in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the State Legislature proposed an amendment to the State Constitution, which the State’s voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as “Proposition 22.”

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. The State is now prevented from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This was originally intended to, among other things, stabilize local government revenue sources by restricting the State’s control over local property taxes. The passage of Proposition 22 has also stopped the State from using fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

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

*2013-14 State Budget.* The Governor signed the fiscal year 2013-14 State budget (the “2013-14 State Budget”) on June 27, 2013. The 2013-14 State Budget represents a multiyear plan that maintains a \$1.1 billion reserve and pays down certain budgetary debt. The 2013-14 State Budget provides for \$97.1 billion in revenues and transfers for fiscal year 2013-14 (down slightly from the \$98.2 billion estimated for fiscal year 2012-13), and \$96.3 billion in total expenditures for fiscal year 2013-14 (up slightly from the \$95.7 billion estimates for fiscal year 2012-13). However, unlike recent years, the State enters fiscal year 2013-14 with a positive prior year general fund balance, approximately \$872 million, as compared to a negative general fund balance of \$1.7 billion at the start of fiscal year 2012-13. The 2013-14 State Budget, accordingly, is able to set aside a \$1.1 billion reserve in a special fund for economic uncertainties.

The 2013-14 State Budget projects that budgetary debt, which was approximately \$35 billion at the end of fiscal year 2010-11 and \$27 billion at the end of fiscal year 2012-13, will be reduced to less than \$5 billion by the end of fiscal year 2016-17. Although the 2013-14 State Budget is a balanced budget, the 2013-14 State Budget notes that substantial risks, uncertainties and liabilities remain, including the pace of the economic recovery, the State’s needs to address its other significant liabilities and the federal budget for federal fiscal year 2014.

With the passage of Proposition 30, The Schools and Local Public Safety Protection Act (the “Temporary Tax Measure”), the 2013-14 State Budget reinvests in, rather than cuts, education funding. The Temporary Tax Measure increased the personal income tax rates on the State’s highest income

taxpayers by up to three percent for a period of seven years beginning with the 2012 tax year, and increased the sales tax by one-quarter percent for a period of four years beginning on January 1, 2013. For kindergarten through twelfth grade (“K-12”) education, the 2013-14 State Budget provides \$55.3 billion (or \$8,220 per student) in Proposition 98 funding in fiscal year 2013-14, which is slightly lower than the \$56.5 billion estimated in fiscal year 2012-13 but an increase of more than \$8 billion (or \$1,045 per student) from fiscal year 2011-12 levels. The 2013-14 State Budget projects \$67.1 billion (or \$10,010 per student) in Proposition 98 funding in fiscal year 2016-17. Total funding under the 2013-14 State Budget for all K-12 education in fiscal year 2013-14 is approximately \$70 billion.

The 2013-14 State Budget also contains a new formula for funding the school finance system (the “Local Control Funding Formula”). The Local Control Funding Formula is designed to increase local control and flexibility, reduce State bureaucracy and better allocate resources based on student needs. The Local Control Funding Formula would replace the existing revenue limit funding system and most categorical programs. See “–Local Control Funding Formula” herein for more information.

Certain budget adjustments for K-12 programs include the following:

- **Local Control Funding Formula.** An increase of \$2.1 billion in Proposition 98 general funds for school districts and charter schools, and \$32 million in Proposition 98 general funds for county offices of education, to support first-year funding provided through the Local Control Funding Formula.
- **Common Core Implementation.** An increase of \$1.25 billion in one-time Proposition 98 general funds to support the implementation of the Common Core, which are new standards for evaluating student achievement in English-language arts and mathematics. Such funding will be distributed to local education agencies on the basis of enrollment to support necessary investments in professional development, instructional materials and technology. Local education agencies will be required to develop a plan to spend this money over the next two years and to hold a public hearing on such plan.
- **Career Technical Education Pathways Grant Program.** An increase of \$250 million in Proposition 98 general funds for one-time competitive capacity-building grants for K-12 school districts and community colleges to support programs focused on work-based learning. K-12 schools and community colleges must obtain funding commitments from program partners to support ongoing program costs.
- **K-12 Mandates Block Grant.** An increase of \$50 million in Proposition 98 general funds to reflect the inclusion of the Graduation Requirements mandate within the block grant program. This increase will be distributed to school districts, county offices of education and charter schools with enrollment in grades 9-12.
- **K-12 Deferrals.** An increase of \$1.6 billion in Proposition 98 general funds in fiscal year 2012-13 and an increase of \$242.3 million in Proposition 98 general funds in fiscal year 2013-14 for the repayment of inter-year budgetary deferrals. When combined, total funding over such two-year will reduce K-12 inter-year deferrals to \$5.6 billion by the end of fiscal year 2013-14.
- **Special Education Funding Reform.** The 2013-14 State Budget includes several consolidations for various special education programs in an effort to simplify special education finance and provide Special Education Local Plan Areas with additional funding flexibility.

With respect to the implementation of Proposition 39 (The California Clean Energy Jobs Act), which was approved at the November 6, 2012 election, the 2013-14 State Budget allocates \$381 million

in Proposition 98 general funds to K-12 local education agencies to support energy efficiency projects approved by the California Energy Commission. Of this amount, 85% will be distributed based on ADA and 15% will be distributed based on free and reduced-price meal eligibility. The 2013-14 State Budget establishes minimum grant levels of \$15,000 and \$50,000 for small and exceptionally small local education agencies and allows these agencies to receive an advance on a future grant allocation. Other local education agencies would receive the greater of \$100,000 or their weighted distribution amount. The 2013-14 State Budget also provides \$28 million for interest-free revolving loans to assist eligible energy projects at schools and community colleges.

The complete 2013-14 State Budget is available from the California Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov). The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

*Local Control Funding Formula.* The Local Control Funding Formula replaces the existing revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a base revenue limit funding grant (“Base Grant”) per unit of ADA with additional supplemental funding allocated to local educational agencies based on their proportion of English language learners, students from low-income families and foster youth, beginning in fiscal year 2013-14. The Local Control Funding Formula has an eight year implementation program to incrementally close the gap between actual funding and the target level of funding, as described below. The Local Control Funding Formula includes the following components:

- A Base Grant for each local education agency, equivalent to \$7,643 per unit of ADA in fiscal year 2013-14. Such Base Grant per unit of ADA, adjusted by grade span variation and to be adjusted annually for cost-of-living, is as follows: \$6,845 for grades K-3, \$6,947 for grades 4-6, \$7,154 for grades 7-8 and \$8,289 for grades 9-12 (the “Target Base Grant”). This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12.
- A 20% supplemental grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 22.5% of a local education agency’s Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the local education agency that comprise more than 55% of enrollment.
- An Economic Recovery Target (the “ERT”) that is intended to ensure that almost every local education agency receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of ADA), adjusted for inflation, at full implementation of the Local Control Funding Formula. Upon full implementation, local education agencies would receive the greater of the Target Base Grant or the ERT.

Of the projected \$25 billion in new funding to be invested through the Local Control Funding Formula over the next eight years, the vast majority of new funding will be provided for Base Grants. Specifically, of every dollar invested through the Local Control Funding Formula, 84 cents will go to Base Grants, 10 cents will go to supplemental grants and 6 cents will go to concentration grants.

Under the new formula, for “basic aid districts,” local property tax revenues would be used to offset up to the entire allocation under the new formula. However, “basic aid districts” would continue to receive the same level of State aid as allocated in fiscal year 2012-13.

All school districts, county offices of education and charter schools will be required to develop and adopt local control and accountability plans, which will identify local goals in areas that are priorities for the State, including pupil achievement, parent engagement and school climate. Such local control and accountability plans are to be developed in accordance with a template to be provided by the State Board of Education. County superintendents will review and provide support to the school districts under their jurisdiction, while the Superintendent of Public Instruction will perform a corresponding role for county offices of education. In addition the 2013-14 State Budget creates the California Collaborate for Education Excellence (the “Collaborative”) to advise and assist local education agencies in achieving the goals identified in their plans. For local education agencies that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the Superintendent of Public Instruction would have authority to make changes to a local education agency’s plan. For charter schools, the charter authorizer will be required to consider revocation of a charter if the Collaborative finds that the inadequate performance is persistent and acute as to warrant revocation.

*Dissolution of Redevelopment Agencies.* The adopted State budget for fiscal 2011-12, as signed by the Governor of the State on June 30, 2011, included as trailer bills Assembly Bill No. 26 (First Extraordinary Session) (“AB1X 26”) and Assembly Bill No. 27 (First Extraordinary Session) (“AB1X 27”), which the Governor signed on June 29, 2011. AB1X 26 suspended most redevelopment agency activities and prohibited redevelopment agencies from incurring indebtedness, making loans or grants, or entering into contracts after June 29, 2011. AB1X 26 dissolves all redevelopment agencies in existence and designates “successor agencies” and “oversight boards” to satisfy “enforceable obligations” of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. Certain provisions of AB1X 26 are described further below. As signed by the Governor, AB1X 27 would have allowed a redevelopment agency to continue to exist, notwithstanding AB1X 26, upon the enactment by the city or county that created the redevelopment agency of an ordinance to comply with AB1X 27’s provisions and the satisfaction of certain other conditions.

In July of 2011, various parties filed an action before the Supreme Court of the State of California (the “Court”) challenging the validity of AB1X 26 and AB1X 27 on various grounds (*California Redevelopment Association v. Matosantos*). On December 29, 2011, the Court rendered its decision in *Matosantos* upholding virtually all of AB1X 26 and invalidating AB1X 27. In its decision, the Court also modified various deadlines for the implementation of AB1X 26. The deadlines for implementation of AB1X 26 below take into account the modifications made by the Court in *Matosantos*.

On February 1, 2012, and pursuant to *Matosantos*, AB1X 26 dissolved all redevelopment agencies in existence and designated “successor agencies” and “oversight boards” to satisfy “enforceable obligations” of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. With limited exceptions, all assets, properties, contracts, leases, records, buildings and equipment, including cash and cash equivalents of a former redevelopment agency will be transferred to the control of its successor agency and, unless otherwise required pursuant to the terms of an enforceable obligation, distributed to various related taxing agencies pursuant to AB1X 26. Assembly Bill No. 1484 (“AB1X 1484”) signed into law by the Governor on June 27, 2012 modified certain provisions enacted under AB1X 26, and together with AB1X, form the procedural framework for the dissolution of the redevelopment agencies.

AB1X 26 requires redevelopment agencies to continue to make scheduled payments on and perform obligations required under its “enforceable obligations.” For this purpose, AB1X 26 defines

“enforceable obligations” to include “bonds, including the required debt service, reserve set-asides, and any other payments required under the indenture or similar documents governing the issuance of outstanding bonds of the former redevelopment agency” and “any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy.” AB1X 26 specifies that only payments included on an “enforceable obligation payment schedule” adopted by a redevelopment agency shall be made by a redevelopment agency until its dissolution.

However, until a successor agency adopts a “recognized obligation payment schedule” the only payments permitted to be made are payments on enforceable obligations included on an enforceable obligation payment schedule. A successor agency may amend the enforceable obligation payment schedule at any public meeting, subject to the approval of its oversight board.

Under AB1X 26, commencing February 1, 2012, property taxes that would have been allocated to each redevelopment agency if the agencies had not been dissolved will instead be deposited in a “redevelopment property tax trust fund” created for each former redevelopment agency by the related county auditor-controller and held and administered by the related county auditor-controller as provided in Part 1.85 (commencing with Section 34170) of the State Health and Safety Code (the “Health and Safety Code”). The Health and Safety Code generally requires each county auditor-controller, on May 16, 2012 and June 1, 2012 and each January 2 and June 1 thereafter, to apply amounts in a related redevelopment property tax trust fund, after deduction of the county auditor-controller’s administrative costs, in the following order of priority:

- To pay pass-through payments to affected taxing entities in the amounts that would have been owed had the former redevelopment agency not been dissolved; provided, however, that if a successor agency determines that insufficient funds will be available to make payments on the recognized obligation payment schedule and the county auditor-controller and State Controller verify such determination, pass-through payments that had previously been subordinated to debt service may be reduced;
- To the former redevelopment agency’s successor agency for payments listed on the successor agency’s recognized obligation payment schedule for the ensuing six-month period;
- To the former redevelopment agency’s successor agency for payment of administrative costs; and
- Any remaining balance to school entities and local taxing agencies.

It is possible that there will be additional legislation proposed and/or enacted to “clean up” various inconsistencies contained in AB1X 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by AB1X 26. For example, AB 1484 was signed by the Governor on June 27, 2012, to clarify and amend certain aspects of AB1X 26. AB 1484, among other things, attempts to clarify the role and requirements of successor agencies, provides successor agencies with more control over agency bond proceeds and properties previously owned by redevelopment agencies and adds other new and modified requirements and deadlines. AB 1484 also provides for a “tax claw back” provision, wherein the State is authorized to withhold sales and use tax revenue allocations to local successor agencies to offset payment of property taxes owed and not paid by such local successor agencies to other local taxing agencies. This “tax claw back” provision has been challenged in court by certain cities and successor agencies. The Borrower cannot predict the outcome of such litigation and what effect, if any, it will have on the Borrower. Additionally, no assurances can be given as to the effect of any such future proposed and/or enacted legislation on the Borrower.

*State Cash Management Legislation.* On March 1, 2010, the Governor signed a bill (and on March 4, 2010, subsequently signed a clean-up bill to clarify certain provisions of such bill) to provide additional cash management flexibility to State fiscal officials (the “Cash Management Bill”). The Cash Management Bill authorized deferral of certain payments during the 2010-11 fiscal year for school districts (not to exceed \$2.5 billion in the aggregate at any one time, and a maximum of three deferrals during the fiscal year). The Cash Management Bill permitted deferrals of payments to K-12 schools in July 2010, October 2010 and March 2011, for not to exceed 60, 90 and 30 days, respectively, but, depending on actual cash flow conditions at the time, and allowed the State Controller, Treasurer and Director of Finance to either accelerate or delay the deferrals up to 30 days or reduce the amounts deferred. The Cash Management Bill also permitted the State to move a deferral to the prior month or to a subsequent month upon 30 days written notice by the State Department of Finance to the Legislative Budget Committee, except that the Cash Management Bill provided that the deferral for March 2011 was required to be paid prior to April 30. The Cash Management Bill provided for exceptions to the deferrals for school districts that could demonstrate hardship. The Cash Management Bill made it necessary for many school districts (and other affected local agencies) to increase the size and/or frequency of their cash flow borrowings during fiscal year 2010-11. Similar legislation was enacted for fiscal year 2011-12. The fiscal year 2011-12 legislation, however, set forth a specific deferral plan for K-12 education payments. The State Legislature enacted similar legislation for fiscal year 2012-13 that deferred \$1.2 billion of K-12 payments in July 2012, \$600 million in August 2012, \$800 million in October 2012 and \$900 million in March 2013. Of such deferred amounts, \$700 million of the deferral made in July 2012 was paid in September 2012, the remaining \$1.9 billion deferred in July, August and October of 2012, was paid in January 2013, and the \$900 million deferred in March 2013 was repaid in April 2013. The Borrower is authorized to borrow temporary funds to cover its annual cash flow deficits and, as a result of this or similar future legislation, Alliance might find it necessary to utilize cash flow borrowings or increase the size or frequency of its cash flow borrowings in fiscal year 2012-13 and in future years. The Borrower cannot predict if additional deferrals will be made in fiscal year 2012-13 and in future years.

*Future Budgets and Budgetary Actions.* The Borrower and the Authority cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors which the Borrower and the School cannot predict and over which they will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State’s ability to fund schools during fiscal year 2013-14 and in future fiscal years. State budget shortfalls in fiscal year 2013-14 and future fiscal years could have a material adverse financial impact on the School.

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

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

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

In addition, each charter school is entitled to a “categorical block grant.” School districts must qualify for categorical aid on the basis of the actual number of students in attendance who qualify for one or more special programs, and may only spend the aid for the restricted purposes of the program. Charter school students do not need to qualify individually for each program of certain categorical aid. Instead, a charter school “categorical block grant” is computed annually. In 2012-13, the amount available to the School was based upon \$412 per ADA plus an allowance for economically impacted students based upon individual school data. Categorical block grant funding may be used for any purpose determined by the charter school. In addition, charter schools may apply for and receive separate categorical funds for many programs that are not included in the block grants, if otherwise eligible, but may not receive aid for programs exclusively or almost exclusively provided by a county office of education.

Starting in fiscal year 2013-14, the existing revenue limit funding system and most categorical programs funding charter schools will be replaced by the “Local Control Funding Formula.” Among the stated goals of the Local Control Funding Formula funding equity between charter schools and traditional school districts. The Local Control Funding Formula distributes combined resources to school districts through a base revenue limit funding grant (“Base Grant”) per unit of ADA with additional supplemental funding allocated to local educational agencies based on their proportion of English language learners and economically disadvantaged students. While most of the funds previous allocated in separate blocks will be swept into the Base Grant, special education, nutrition, after school programming, safety and federal categorical funds will continue to be funded as they have been in previous years. Every school district is entitled to a Base Grant adjusted for grade span cost differentials, multiplied by ADA. The funds received by charter schools will grow with increasing ADA. The average Base Grant, when fully implemented, is expected to be equal to the current average undeficitated school district revenue limit. School districts are entitled to supplemental funding for each high need student of 20% of the Base Grant. When the proportion of English language learners and economically disadvantaged students exceeds 55% of its total student population, a school district would receive an additional concentration grant equal to 35% of the Base Grant for each additional English language learner and economically disadvantaged student above the 55% threshold. Notably, however, charter schools may not receive a higher percentage of concentration funding than students in the district in which the charter is located. Under the new formula, “basic aid districts” would be defined as school districts whose local property taxes equal or exceed their district’s formula allocation and would continue to retain local property taxes in excess of their new formula allocation.

The following tables describe ADA-based State funding of California charter school education for Fiscal Year 2010-11 through 2013-14:

**Table 1**  
STATE FUNDING OF CALIFORNIA CHARTER SCHOOL EDUCATION  
FISCAL YEAR 2010-11  
(Dollars per unit of ADA)

	Grades			
	<b>K-3</b>	<b>4-6</b>	<b>7-8</b>	<b>9-12</b>
General Purpose Block Grant	\$5,077	\$5,153	\$5,306	\$6,158
Categorical Block Grant	412	412	412	412
Lottery	133	133	133	133
Total*	\$5,622	\$5,698	\$5,851	\$6,693

**Table 2**  
STATE FUNDING OF CALIFORNIA CHARTER SCHOOL EDUCATION  
FISCAL YEAR 2011-12  
(Dollars per unit of ADA)

	Grades			
	<b>K-3</b>	<b>4-6</b>	<b>7-8</b>	<b>9-12</b>
General Purpose Block Grant	\$5,090	\$5,166	\$5,319	\$6,163
Categorical Block Grant	398	398	398	398
Lottery	129	129	129	129
Total*	\$5,617	\$5,683	\$5,846	\$6,690

**Table 3**  
STATE FUNDING OF CALIFORNIA CHARTER SCHOOL EDUCATION  
FISCAL YEAR 2012-13  
(Dollars per unit of ADA)

	Grades			
	<b>K-3</b>	<b>4-6</b>	<b>7-8</b>	<b>9-12</b>
General Purpose Block Grant	\$5,112	\$5,193	\$5,349	\$6,190
Categorical Block Grant	412	412	412	412
Lottery**	150	150	150	150
Total*	\$5,674	\$5,755	\$5,911	\$6,752

\* Excludes special education, No Child Left Behind, class size reduction, supplemental instruction, economic impact aid, and National School Lunch Program funding and any private philanthropy, grants, or other fund-raising.

\*\* Estimated.

**Table 4**  
STATE FUNDING OF CALIFORNIA CHARTER SCHOOL EDUCATION  
FISCAL YEAR 2013-14  
(Dollars per unit of ADA)

	Grades			
	<b>K-3</b>	<b>4-6</b>	<b>7-8</b>	<b>9-12</b>
Target LCFF Base Grant	\$6,952	\$7,056	\$7,266	\$8,149
CTE/CSR Add-ons	723	N/A	N/A	219
Lottery**	154	154	154	154
Total*	\$7,829	\$7,210	\$7,420	\$8,522

\* Excludes special education, nutrition, After School Education and Safety, SB 740, Charter School Facility Grants, No Child Left Behind, class size reduction, supplemental instruction, economic impact aid, and National School Lunch Program funding and any private philanthropy, grants, or other fund-raising.

\*\* Estimated.

Source: California Charter Schools Association; California Department of Education

For a description of the School's revenue sources, see APPENDIX A – "CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE" herein.

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

### **Limitations on Revenues**

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

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

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

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

Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher

than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place. Charter schools are not directly dependent on local property taxes. To the extent local property taxes fund the general purpose entitlement, losses in local property tax income are required to be made up by the State.

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

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

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

## **RISK FACTORS**

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

*the School and a corresponding reduction in payments made to the Authority by the Borrower are discussed herein.*

A number of factors could have an adverse impact on the ability of the School to generate sufficient revenues to meet their respective obligations under the Lease, which could, in turn, have an effect on the Borrower's ability to make loan repayments. The ability of the School to generate sufficient revenues is dependent upon a number of elements, including California State budget pressures, demand for charter schools, the ability of the School to provide the educational services and classes demanded by parents or to attract students generally, changes in the level of confidence in the public school system in general or public charter schools in particular, competition, faculty recruitment, demographic changes, legislation, governmental regulations, changes in immigration policy, litigation and Alliance's ability to achieve and maintain enrollment levels. This, in turn, is affected by numerous circumstances both within and outside the control of Alliance and the School, including a continuation of favorable governmental policies and programs with respect to public charter schools (see "CHARTER SCHOOLS IN CALIFORNIA" herein); the competitive appeal and perceived quality of Alliance's curriculum; the School's ability and energy of its faculty and administration; and the benevolence of supporters of the School. **There can be no assurance given that revenues of the School will not decrease. Any and all financial projections are only good faith estimates and are not intended as a representation or warranty as to the future financial condition of the School. Neither Alliance nor the Sole Member is liable on the Lease, the Loan Agreement or the Bonds.**

See APPENDIX A – "CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE" hereto for more detailed information regarding the Borrower, the School and Alliance.

### **General**

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

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE REDEMPTION PREMIUM, IF ANY OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED THEREFOR UNDER THE INDENTURE AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE REDEMPTION PREMIUM, IF ANY OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

## **Schools' Reliance on Alliance; Alliance not Liable on Loan Agreement, Lease or Bonds.**

The School was established by and is managed by Alliance pursuant to a Management Services Agreement. The success of the School in attracting and retaining students, and on managing their expenses, depends largely on the efforts of Alliance. Alliance, however, is not a party to, or obligated under, the Lease, the Loan Agreement or the Bonds. See APPENDIX A – “CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE” hereto for more information about Alliance. Financial information with respect to Alliance included in APPENDIX B hereto is for general information about Alliance.

## **California Budget Deficit**

In recent years the State of California has struggled with large budget deficits, leading to cuts in a number of programs, including K-12 education. See “State Funding of Education” herein. Although the fiscal situation in the State has improved of late, reductions in State K-12 funding have been significant in recent years and future reductions may occur, reducing State revenues of the School. Such reductions may be material and may adversely affect the ability of the School to make payments under the Lease.

## **Tax Related Issues**

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

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

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

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

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

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

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

***Potential Legislation.*** From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Tax-Exempt Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. As one example, the Obama Administration’s proposed 2014 budget includes a legislative proposal which, for tax years beginning after December 31, 2013, would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. If enacted in its current form, the 2014 budget could adversely impact the marketability and market value of the Bonds and prevent certain Bondholders (depending on the financial and tax circumstances of the particular Bondholder) from realizing the full benefit of the tax exemption of interest on the Tax-Exempt Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Tax-Exempt Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Tax-Exempt Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

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

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

## **Limitations On Value of the Facility and to Remedies Under the Deed of Trust**

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

***Appraised Value is only an Estimate.*** The appraisal report (the "Appraisal") for the Facility estimates the market value of the Facility. No assurance can be given that the Facility could be sold for the amount of estimated market value thereof contained in the Appraisal. Appraisals, including the Appraisal, are subject to numerous limitations.

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

***Foreclosure.*** There are two methods of foreclosing on a deed of trust or mortgage under California law, by nonjudicial sale and by judicial sale. Foreclosure under a deed of trust may be accomplished by a nonjudicial trustee's sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and election to sell and send a copy to the trustor, to any person who has recorded a request for a copy of the notice of default and notice of sale, to any successor in interest of the trustor and to certain other parties discernible from the real property records. The trustee then must wait for the lapse of at least three months after the recording of the notice of default and election to sell before establishing the trustee's proposed sale date and giving a notice of sale (in a form mandated by California statutes). The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the trustee's sale by at least 20 days. Such notice of sale must be posted on the property and sent, at least 20 days prior

to the trustee's sale, to the trustor, to each person who has requested a copy, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust and to certain other parties discernible from the real property records. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. The trustor, any successor in interest of the trustor in the trust property, or any person having a junior lien or encumbrance of record may, during the statutory reinstatement period, which extends to five days prior to the sale date, cure any monetary default by paying any delinquent installments of the debt then due under the terms of the deed of trust and certain other obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys' and trustees' fees. Following a nonjudicial sale, neither the trustor nor any junior lienholder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor.

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

***Seismic.*** The Facility is located in a seismically active region of California. The occurrence of severe seismic activity could result in substantial damage to the Facility, which could adversely affect the ability of the Borrower to operate the Facility and/or for the School to make the Lease payments and could adversely affect the value of the Facility.

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

## **Bankruptcy**

The rights and remedies of the owners of the Bonds are subject to various provisions of the Federal Bankruptcy Code (the "Bankruptcy Code"). If the Borrower were to become a debtor in a bankruptcy case, its revenues and certain of its accounts receivable and other property created or otherwise acquired after the filing of such petition and for up to 90 days prior to the filing of such petition may not be subject to the security interest created under the Deed of Trust for the benefit of the owners of the Bonds. The filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Borrower, and its property, and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property. If the bankruptcy court so ordered, the property of the Borrower, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Borrower despite the security interest of the Trustee therein. While the Bankruptcy Code requires that the interest of the Trustee as lien owner be adequately protected before the collateral may be used by the Borrower, such protection could take the form of a replacement lien on assets of the Borrower acquired or created after the bankruptcy petition is instituted. The rights of the Trustee to enforce liens and security interests against the Borrower's assets could be delayed during the pendency of the rehabilitation proceedings.

The Borrower could file a plan for the reorganization of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two thirds in dollar amount and more than one half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

### **Key Management**

The creation of, and the philosophy of teaching in, charter schools initially may reflect the vision and commitment of a few key persons on the board of directors and/or the upper management of the charter school (“Key Directors/Managers”). Loss of any such Key Directors/Managers, and the inability of charter schools to find comparable qualified replacements, could adversely affect the operations or financial results of such charter schools. See “APPENDIX A – CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE” for more information regarding the governance and management of each of Alliance, the Borrower, the Sole Member and the School.

### **Factors Associated with the School’s Operations**

There are a number of factors affecting schools generally that could have an adverse effect on financial position and ability to make Lease payments necessary to make debt service payments on the Bonds. These factors include, but are not limited to, failure to qualify for statutory reimbursement under state programs; increasing costs of compliance with federal, state or local laws or regulations, including, but not limited to, laws or regulations concerning environmental quality, work safety and accommodation of persons with disabilities; taxes or other charges imposed by federal, state or local governments; the ability to attract a sufficient number of students due to reputational concerns; changes in existing statutes pertaining to the powers of the School and disruption of the School operations by real or perceived threats against the School, its staff members or students. Alliance, the Borrower, the Sole Member and the School cannot assess or predict the ultimate effect of such factors on its operations or financial results of its operations or on the School’s ability to make Lease payments.

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

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

In addition to the foregoing, the realization of any rights under the Loan Agreement, the Indenture, the Lease and the Deed of Trust upon a default depends upon the exercise of various remedies specified in the Loan Agreement, the Indenture, the Lease and the Deed of Trust. These remedies may require judicial action which is often subject to discretion and delay. Under existing law, certain of the remedies specified in the Loan Agreement, the Indenture, the Lease and the Deed of Trust may not be

readily available or may be limited. For example, a court may decide not to order the specific performance of the covenants contained in the Loan Agreement, the Indenture, the Lease and the Deed of Trust. Accordingly, the ability of the Authority or the Trustee to exercise remedies under the Loan Agreement, the Indenture, the Lease and the Deed of Trust upon an Event of Default could be impaired by the need for judicial or regulatory approval.

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

As described in the “NOTICE TO INVESTORS” that precedes the Table of Contents of this Limited Offering Memorandum, the Bonds are to be sold (including in secondary market transactions) only to Approved Institutional Buyers or Accredited Investors. The Indenture contains provisions limiting transfers of the Bonds (except under certain limited circumstances described herein) to Approved Institutional Buyers and Accredited Investors. The face of each Bond will contain a legend to the effect that such Bond can only be transferred to and owned by Approved Institutional Buyers or Accredited Investors. The Bonds will be issued in minimum denominations of \$25,000 or any integral multiple of \$5,000 in excess thereof. In light of these restrictions, purchasers should not expect that there will be an active secondary market for the Bonds.

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

### **Specific Risks of Charter Schools**

***Charter School Law.*** The Charter School Law is evolving. Amendments are made relatively frequently and legislative and public attitudes are still forming. It is likely that additional changes will be made in the future, some of which may be adverse to charter schools in general and to the School in particular. See “CHARTER SCHOOLS IN CALIFORNIA — Amendments to the Charter School Law” herein.

***Non-Renewal or Revocation of Charters.*** The Charter School Law enables charter authorizers to grant five-year charters which may be renewed after evaluation and can be revoked at any time by the charter granting authority or by the State Board of Education due to educational non-performance, fiscal mismanagement or other factors. See “CHARTER SCHOOLS IN CALIFORNIA” herein. Management of Alliance believes that it has stable relationships with the Los Angeles Unified School District, its district charter authorizer, which, under appropriate circumstances is authorized to grant charters under the Charter School Law. See APPENDIX A – “CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE” herein.

***Budgetary Constraints.*** Charter Schools are funded primarily from State and local tax revenues and budgetary pressures at the State or local level may jeopardize future funding levels, which may adversely affect the ability of the School to make their respective payments under the Lease. See “STATE FUNDING OF EDUCATION” above.

***Enrollment Levels.*** The School’s revenues and financial strength will depend in part upon maintaining certain enrollment levels at the School. A reduction in enrollment will have a direct result of reducing ADA payable with respect to the affected charter school.

***Risk of Reduction in ADA Funding.*** Since the vast majority of funds for the School’s operations come from the State on the basis of ADA, each school is subject to State funding reductions or

restrictions that might affect all public school districts and charter schools. Among other such risks, over time the State may not increase ADA-based funding commensurate with increases in the cost of School operations, or the State may even decrease ADA-based funding.

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

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

### **Claims and Insurance Coverage**

Litigation could arise from the corporate and business activities of the Borrower and of the School, including from their status as employers. Many of these risks are covered by insurance, but some are not. For example, claims arising from wrongful termination or sexual molestation claims and business disputes may not be covered by insurance or other sources and may, in whole or in part, be a liability of the affected school if determined or settled adversely.

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

## **ABSENCE OF MATERIAL LITIGATION**

### **The Authority**

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

### **The Borrower**

There is no controversy or litigation of any nature now pending against the Borrower or, to the knowledge of the officers of the Borrower, threatened, which seeks to restrain or enjoin the sale or issuance of the Bonds or in any way contests or affects the validity of the Bonds, or any proceedings of the Borrower taken concerning the issuance or sale of the Bonds, or the pledge or application of any moneys or security provided for the payment of the Bonds, the use of the Bond proceeds or the existence or powers of the Borrower relating to the issuance of the Bonds.

## **The School**

There is no controversy or litigation of any nature now pending against the School or, to the knowledge of the officers of the School, threatened, which seeks to restrain or enjoin the sale or issuance of the Bonds or in any way contests or affects the validity of the Bonds, or any proceedings of the School taken concerning the issuance or sale of the Bonds, or the pledge or application of any moneys or security provided for the payment of the Bonds, the use of the Bond proceeds or the existence or powers of the School relating to the issuance of the Bonds.

## **TAX MATTERS**

### **Tax-Exempt Bonds**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. In the further opinion of Bond Counsel, interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Tax-Exempt Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority, the Borrower, the School, the Sole Member and Alliance have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Tax-Exempt Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Tax-Exempt Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of Musick Peeler & Garrett LLP, Counsel to the Borrower, the School and the Sole Member, regarding the current qualification of the School and the Sole Member as organizations described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Borrower, the School, Alliance and the Sole Member concerning their "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor Counsel to the Borrower, the School, Alliance and the Sole Member has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor Counsel to the Borrower, the School, Alliance and the Sole Member can give or has given any opinion or assurance about the future activities of the Borrower, the School, Alliance or the Sole Member, or about the effect of future changes in enforcement thereof by the IRS. Failure of the School, Alliance and the Sole Member to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facility financed by the Bonds in a manner that is substantially related to their charitable purposes under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel is of the opinion that interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Tax-Exempt Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owner from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration's proposed 2014 budget includes a legislative proposal which, for tax years beginning after December 31, 2013, would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential import of any pending or proposed federal or state tax legislation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, the Borrower, the School or Alliance, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority, the Borrower, the School and Alliance have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Borrower, the School, Alliance or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Borrower and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of the IRS's positions with which the Authority or the Borrower legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the Borrower, the School, Alliance or the Beneficial Owners to incur significant expense.

### **Taxable Bonds**

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Taxable Bonds that acquire their Taxable Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Taxable Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Taxable Bonds pursuant to this offering for the issue price that is applicable to such Taxable Bonds (*i.e.*, the price at which a substantial amount of the Taxable Bonds are sold to the public) and who will hold their Taxable Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Taxable Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a

valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Taxable Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Taxable Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Taxable Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Bonds (including their status as U.S. Holders or Non-U.S. Holders).

#### ***For U.S. Holders***

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, interest on the Taxable Bonds is exempt from State of California personal income taxes. Interest on the Taxable Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Taxable Bonds.

The Taxable Bonds are not expected to be treated as issued with original issue discount (“OID”) for U.S. federal income tax purposes because the stated redemption price at maturity of the Taxable Bonds is not expected to exceed their issue price, or because any such excess is expected to only be a *de minimis* amount (as determined for purposes of the Code).

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the Taxable Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Taxable Bonds.

*Disposition of the Taxable Bonds.* Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, defeasance, retirement (including pursuant to an offer by the Authority) or other disposition of a Taxable Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Taxable Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Taxable Bond which will be taxed in the manner described above) and (ii) the U.S. Holder’s adjusted tax basis in the Taxable Bond (generally, the purchase price paid by the U.S. Holder for the Taxable Bond). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the Taxable Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder’s holding period for the Taxable Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

#### ***For Non-U.S. Holders***

*Interest.* Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” payments of principal of, and interest on, any Taxable Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, as such term is defined in the Code, which is related to the Authority through stock ownership and (2) a bank which acquires such Taxable Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Taxable Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

*Disposition of the Taxable Bonds.* Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition of a Taxable Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition and certain other conditions are met.

*U.S. Federal Estate Tax.* A Taxable Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual’s death, provided that at the time of such individual’s death, payments of interest with respect to such Taxable Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

*Information Reporting and Backup Withholding.* U.S. information reporting and “backup withholding” requirements apply to certain payments of principal of, and interest on the Taxable Bonds, and to proceeds of the sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition of a Taxable Bond, to certain noncorporate holders of Taxable Bonds that are United States persons. Under current U.S. Treasury Regulations, payments of principal and interest on any Taxable Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Taxable Bond or a financial institution holding the Taxable Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Taxable Bonds that are not United States persons and copies of such owners’ certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28% (subject to future adjustment).

In addition, if the foreign office of a foreign “broker,” as defined in applicable U.S. Treasury Regulations pays the proceeds of the sale of a Taxable Bond to the seller of the Taxable Bond, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade

or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) who, in the aggregate hold more than 50% of the income or capital interest in the partnership or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Taxable Bond, will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a Taxable Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

### ***Circular 230***

Under 31 C.F.R. part 10, the regulations governing practice before the IRS (Circular 230), the Authority, the Borrower, the Sole Member and Alliance and their respective tax advisors are (or may be) required to inform prospective investors that:

- Any advice contained herein is not intended or written to be used, and cannot be used, by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer;
- Any such advice is written to support the promotion or marketing of the Bonds and the transactions described herein; and
- Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

### **APPROVAL OF LEGALITY**

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in Exhibit F hereto. Certain matters will be passed upon for the Authority by Nixon Peabody LLP, for the Borrower, the Sole Member, Alliance and the School by Musick Peeler & Garrett LLP, Los Angeles, California and for the Underwriter by Eichner & Norris PLLC, Washington, District of Columbia. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel, will provide certain other legal services for the Authority.

### **RATING**

The Borrower has received the rating for the Bonds set forth on the cover hereof from Standard & Poor's Rating Services ("Standard & Poor's"). Standard & Poor's is located at 55 Water Street, New York, New York 10004, telephone (877) 772-5436. The Borrower has furnished to Standard & Poor's certain information and materials concerning the Bonds. No application was made to any other rating agency for the purpose of obtaining additional ratings on the Bonds. Any explanation of the significance of such rating may only be obtained from Standard & Poor's. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves.

There is no assurance that the rating mentioned above will remain in effect for any given period of time or that it might not be lowered or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of the rating might have an adverse effect on the market price or marketability of the Bonds.

### **CONTINUING DISCLOSURE**

The Borrower and the School will execute and deliver a Continuing Disclosure Agreement pursuant to which each will, for the benefit of the Beneficial Owner of the Bonds, annually compile and deliver to the Trustee certain financial information and operating data relating to the operations of the Borrower and the School, and provide notices of the occurrence of certain enumerated events, if material. The form of the Continuing Disclosure Agreement is attached hereto as Appendix D. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). The Borrower and the School have never failed to comply in all material respects with any previous undertaking with regard to the Rule to provide annual reports or notices of material events.

### **UNDERWRITING**

The Bonds are being purchased by RBC Capital Markets, LLC (the “Underwriter”). The Underwriter has agreed to purchase the Tax-Exempt Bonds at a price of \$15,497,876.73 (being the principal amount of the Tax-Exempt Bonds plus original issue premium of \$6,655.05, less an Underwriter’s discount of \$198,778.32) and purchase the Taxable Bonds at a price of \$7,715.82 (being the principal amount of the Taxable Bonds less an Underwriter’s discount of \$77,284.18). The Bond Purchase Agreement (“Bond Purchase Agreement”) pursuant to which the Bonds are being purchased by the Underwriter provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement. The Underwriter may offer and sell the Bonds to certain dealers and others at prices different from the prices stated on the inside cover page of this Limited Offering Memorandum. The offering prices may be changed from time to time by the Underwriter.

### **MISCELLANEOUS**

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

NONE OF THE INFORMATION IN THIS LIMITED OFFERING MEMORANDUM HAS BEEN SUPPLIED OR VERIFIED BY THE AUTHORITY OTHER THAN, THE INFORMATION UNDER THE CAPTIONS “THE AUTHORITY” AND “ABSENCE OF MATERIAL LITIGATION — THE AUTHORITY.” THE AUTHORITY MAKES NO REPRESENTATION OR WARRANTY, EXPRESSED OR IMPLIED, AS TO (1) THE ACCURACY OR COMPLETENESS OF INFORMATION IN THIS LIMITED OFFERING MEMORANDUM OTHER THAN IN THE SECTIONS IDENTIFIED ABOVE; (2) THE VALIDITY OF THE BONDS; OR (3) THE TAX STATUS OF THE INTEREST ON THE BONDS.

The distribution and use of this Limited Offering Memorandum has been approved by the Authority, the Borrower and the School.

**2023 UNION LLC,**  
a California limited liability company

By: **Alliance for College-Ready Public Schools Facilities Corporation,**  
its Managing Member

By: /s/ David Hyun  
Name: David Hyun  
Title: Chief Financial Officer

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## APPENDIX A

### CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE

*The information in this Appendix A has been provided by representatives of Alliance and has not been independently confirmed or verified by either the Underwriter or the Authority.*

#### **Alliance for College-Ready Public Schools**

Alliance has over 20 years of history pursuing educational excellence for all public school students in Los Angeles. Incorporated in 1991 as the Los Angeles Educational Alliance for Reform Now (“LEARN”), the organization focused on advocating for systemic reform in the Los Angeles Unified School District (“LAUSD”).

In 1994, LEARN and the Los Angeles Annenberg Metropolitan Project (“LAAMP”) joined forces to form the LAAMP/LEARN Regional School Reform Alliance. LAAMP was part of a national Annenberg Challenge, a half-billion dollar private effort to improve public schools in the United States.

After completing both reform initiatives, in 2000 the organization became known as the Los Angeles County Alliance for Student Achievement with a new mission: assessing the effectiveness of previous reform efforts. Findings indicated that charter schools would be the most efficient and effective way to ensure improvements within the district.

Alliance opened its first charter high school, Alliance Gertz-Ressler High School, in 2004. Alliance College-Ready Public Schools (“Alliance”) was formed as a nonprofit charter management organization (CMO) working to create a network of small, high-performing public charter schools serving grades 6-12 in some of the neediest areas of Los Angeles. Today Alliance provides administrative services to 22 high-performing public charter schools with approximately 9,439 students, all located within the boundaries of LAUSD.

A management agreement is in force between Alliance and each individual school. Approximately seven percent (7%) of the annual state revenues received by each school is paid to Alliance in return for administrative and instructional support.

#### **Mission and Educational Philosophy**

The mission of Alliance is to open and operate a network of small, high-performing public charter schools serving students in grades 6-12 in historically underachieving, low income communities in California that can achieve year-over-year student academic achievement growth and prepare students for success in college.

Alliance schools use an educational model based on high expectations of students, small and personalized campuses, a longer school year and a longer instructional day, a team of highly qualified teachers and principals and parents as partners in their child’s educational success.

The vision for Alliance schools is that they will consistently demonstrate student readiness for success in college by achieving an annual academic growth rate of 1 to 1.5 years in student results on state academic standards; by increasing student performance on college-readiness indicators including SAT, ACT, and EAP exams; by achieving a 100% success rate on passing high school exit exams; and by reducing dropout rates to less than 5%.

## Values and Beliefs

Alliance and its schools are guided by the following core values and beliefs which it believes reflect best practices researched in high performing schools that consistently produce well-educated students prepared to enter and succeed in college.

- *Personalized Learning Environment* - Students learn best in small learning communities where education is personalized so that students know their teachers and are well known as individuals by all adults in the school.
- *Student Engagement* - Student voice is essential in all aspects of the school that directly affect student learning, interests and needs through structures such as advisory groups that connect each student with a personal learning team.
- *College Readiness for All Students* - All students, including students in historically underachieving communities have a fundamental right to high expectations and quality instruction that prepares them to enter and succeed in college. All students must pass A-G college entrance course requirements and be proficient in core academic standards (reading, writing, math, science, history/social science) to be ready for success in college.
- *Increased Time for Learning* - All students must have sufficient time in school to learn successfully with a minimum of up to 190 regular days of instruction and an ongoing opportunity for extended learning time for intervention or enrichment to meet individual student needs. Daily instructional learning time must be structured in longer blocks of time to allow for focused in-depth learning.
- *English Learners* - College-readiness requires proficiency in English for all students. Structured English language development curriculum and instructional strategies must be provided for all students including students learning to speak English as a second language and for English only students who speak non-standard English.
- *How Students Learn Best* – Students learn best when there is rigorous standards-based curriculum with high thinking demand that challenges students to test their understanding of concepts through real life applications; when students know clearly the expectations and criteria they are trying to meet and can judge their own work; and when students participate actively in classroom talk about the concepts and standards they are learning.
- *Integrated Technology* – Having adequate access to technology is key to improving student learning, classroom instruction, data management and communication. Technology can be used as an effective tool in high-performing schools must provide electronic assessment and electronic student portfolios that provide immediate access to student progress data for teachers, students and their parents.
- *Principal Leadership* - Excellent schools must have exemplary principals who are capable instructional leaders and entrepreneurs in managing resources. Exemplary principals are developed through in-depth leadership training and through apprenticeship with principals who have demonstrated success in their schools.
- *Highly Qualified Teachers* - Students learn best with teachers who know their subject field, are well trained to deliver rigorous instruction and can attend to the diverse needs of individual students. Teachers work best in small collaborative teams with common

planning time where lessons are studied as a learning community and where accountability for student success is a shared responsibility.

- *Parents as Partners* - Parents must be meaningfully and actively engaged in their children’s education and have a right to choose to send their children to excellent high performing schools. Parents must be responsible and accountable for supporting their children’s learning at school and at home. They must understand what it will take to prepare their children for college, and they must support the goals of the school and through their voice and through volunteering.
- *Authentic Ongoing Assessment* - There must be multiple ongoing opportunities to measure student learning and to adapt instruction through real life projects, analysis of student work portfolios, interim assessments and student-led conferences as well as standardized on-demand assessments.
- *Accountability for Results* - Principals and teachers must be responsible and accountable to the school community for implementing the core values, beliefs and best practices of the Alliance education model insuring that each and every student gets what they need to achieve their individual and school performance goals.

## **Governance and Administration**

The Alliance Board. Alliance is governed by a 27-member Board of Directors (the “Alliance Board”) which includes members with diverse experiences in critical areas relevant to the organization, including education reform, charter school management, leadership development, political management, community/parent engagement, at-risk students, finance, operations, legal, and fund raising. The Alliance Board is organized into five standing committees (executive, facilities, finance, fund development, and legal/audit). The current Alliance Board includes:

Name:	Primary Occupation:
<b><i>Frank Baxter, Co-Chairman</i></b>	Chairman emeritus of Jefferies and Company Inc.
<b><i>Antony P. Ressler, Co-Chairman</i></b>	Co-founder of Ares Management LLC
<b><i>Harold Williams, Vice Chairman</i></b>	Counsel to the law firm of Skadden, Arps, Slate, Meagher & Flom
<b><i>Gayle Miller, Secretary</i></b>	Retired President of Anne Klein II
<b><i>Alan Arkatov</i></b>	Chief Strategy Officer for Rogers & Associates
<b><i>Judy Burton, President and CEO</i></b>	Alliance
<b><i>David S. Cunningham, III</i></b>	L.A. Superior Court Judge
<b><i>Joseph Drake</i></b>	Co-Founder and President of Good Universe
<b><i>Luis de la Fuente</i></b>	Associate Director at the Broad Foundation
<b><i>David I. Fisher</i></b>	Chairman of the Board of Capital Group International, Inc.
<b><i>Marie Brooks Washington</i></b>	Former CFO of KIPP Foundation and Stuart Foundation
<b><i>Stewart Kwoh</i></b>	President of the Asian Pacific American Legal Center of Southern CA
<b><i>Harry Levitt</i></b>	Executive Vice President of MullinTBG
<b><i>Meyer Luskin</i></b>	President of Scope Industries
<b><i>Richard Merkin, M.D.</i></b>	CEO and Founder of Heritage Provider Network
<b><i>Neal Millard</i></b>	Partner with Musick, Peeler and Garrett
<b><i>Theodore R. Mitchell</i></b>	CEO of New Schools Venture Fund
<b><i>Dale Okuno</i></b>	Retired CEO of E-Z Data, Inc.

<i>William G. Ouchi</i>	Sanford & Betty Sigoloff Professor in Corporate Renewal at UCLA
<i>Richard Riordan</i>	Former California Secretary of Education and former Mayor of L.A.
<i>Dr. Darlene Robles</i>	Professor of Clinical Education at USC
<i>Virgil Roberts</i>	Managing partner for Bobbitt & Roberts
<i>Araceli Ruano</i>	Senior V.P./ Director - California office of the Center for American Progress
<i>Fred Simmons</i>	General Partner - Freeman Spogli & Co.
<i>Eva Stern</i>	Clinical Social Worker and Educator
<i>Ronald Sugar</i>	Chairman Emeritus of Northrop Grumman Corporation
<i>C. Frederick Wehba</i>	Chairman of BentleyForbes

\*Brief resumes of the Alliance Board can be found on Alliance's website: <http://www.laalliance.org>

### **Management Team of Alliance**

Alliance has approximately 72 employees who provide a full range of management services for the charter schools it manages. Resumes of the principal executives are set forth below.

Judy Ivie Burton, President and CEO. As the President and CEO, Judy Burton brings expertise in successfully leading and operating public schools. A major emphasis of her work has been improving student achievement for all students with particular focus on students from low-income families and communities. Ms. Burton has successfully impacted students at-risk through best practices in leadership development, teacher professional development, and parent community engagement. Ms. Burton oversaw the opening of Alliance Gertz-Ressler High School in 2004 and has grown the network to 15 high schools and 6 middle schools in 2013. In addition to leading the achievement of exemplary achievement results, Ms. Burton has led the acquisition, renovation or construction of 10 permanent school sites for Alliance schools.

Prior to her current position, Ms. Burton served as Superintendent of Local District B of LAUSD where she led the largest of 11 local districts with 83 pre K–12 schools and early education centers serving more than 80,000 students in the North and Northeast San Fernando Valley school communities. She also served as the Assistant Superintendent where she headed the Office of School Reform for the LAUSD. Ms. Burton led the implementation of reform efforts throughout LAUSD including administration of Charter Schools, School-Based Management, LEARN, and Comprehensive School Reform Demonstration Programs (CSRDP) in 780 Pre K-12 schools. She is widely recognized at state and national levels for her leadership in the LAUSD implementation of the \$53 million Annenberg Challenge Grant involving more than 200 schools in 22 Pre K-12.

Ms. Burton is a nationally recognized speaker on urban school reform issues. Her leadership in educational reform throughout her career as a teacher, principal, consultant, and Assistant Superintendent has guided the implementation of systemic reform and built collaborations with parents and community members, teachers, the business community, and universities researching the impact of reform. The James E. Irvine Foundation and the Harvard Southern California Club acknowledged Ms. Burton with 2010 Education Leadership awards.

David Hyun, Chief Financial and Operating Officer. David Hyun is responsible for overseeing the accounting, finance, operations, human resources, and facilities department for the Alliance. Prior to joining the Alliance, Mr. Hyun worked for the real estate industry for over twelve years. Mr. Hyun has worked for companies such as Westfield, TrammelCrow Company, and Playa Capital Company. His accounting and finance background and industry experience include real estate investments, property management, construction and development. He earned his B.A. in Business Administration/Finance at the California State University, Northridge. Mr. Hyun is also a graduate of the Graziadio School of

Business and Management, where he earned his MBA. He currently holds an active CPA license from the Washington State Board of Accountancy and is also a licensed real estate broker in the State of California.

Catherine Suitor, Chief Development Officer. Catherine Suitor oversees development and communications for the Alliance and its family of schools. Prior to joining the Alliance, she was the Vice President of Development for the United Way of Greater Los Angeles where she was responsible for raising \$55 million annually for community change initiatives in Los Angeles County. Previously, Ms. Suitor created an endowment and achieved a ten-fold growth in annual income as the Director of Development for the Liberty Hill Foundation, and raised unprecedented funds and awareness as the Director of Development for the Central American Resource Center. She began her career in advocacy, having organized human rights awareness campaigns for the people of El Salvador. Ms. Suitor currently serves on the Board of Southern California Leadership Network. She has also served as a board and committee member for the American Civil Liberties Union of Southern California, the Center for the Study of Political Graphics and New Roads School. She is a graduate of the University of California at Santa Barbara.

Anita Ravi, Chief Academic Officer. Anita Ravi joined the Alliance in July 2012 to plan and oversee professional development for teachers and administrators and to facilitate the transition to Common Core State Standards. Prior to joining the Alliance Ms. Ravi worked for Pittsburgh Public Schools as a consultant and Social Studies Supervisor where she oversaw the development of core curriculum in Social Studies, Mathematics, English Language Arts and Science for grades 6-12. She was responsible for supervising all high school Social Studies teachers and for facilitating the development of core curriculum for grades 3-12. She also participated in the development and piloting of a new research-based teacher evaluation system and career ladder role definition and selection process. Prior to joining Pittsburgh Public Schools, Ms. Ravi was a Fellow at the Institute for Learning at the University of Pittsburgh from 2001 to 2008, where she served as the disciplinary literacy history team chair and worked with teachers and administrators from fifteen urban school districts around the country on professional development in the teaching and learning of history. Prior to moving to Pittsburgh, she was a high school humanities teacher at School of the Future in New York City. Ms. Ravi holds an Ed.M in curriculum design from Teachers College at Columbia University, an M.A. in history from New York University, and a B.A. in history and American literature from the University of California, Berkeley.

Megan Hadden, Vice President – Real Estate. Ms. Hadden is responsible for developing and overseeing all aspects of real estate including site identification, site acquisition, entitlement, due diligence, construction management and closeout. She has worked in charter school development since 2008, successfully developing both tenant improvement and new construction facilities for over 3,700 charter students throughout Los Angeles. Her working knowledge of construction, finance and non-profit experience support her management of the Alliance real estate portfolio. Prior to joining Alliance, Ms. Hadden worked at Pacific Charter School Development, Habitat for Humanity and Linsco Private Ledger.

Ena LaVan, Vice President – Family Schools. Ena LaVan is responsible for supervising and evaluating principals and overseeing the instructional programs at all Alliance schools located in the south and west portions of Los Angeles County. She has over fourteen years of teaching and administrative experience. Prior to assuming her current role, Ms. LaVan was the founding Principal of Alliance William & Carol Ouchi High School. During her five years of leadership at Ouchi HS, it received exemplary scores and was recognized as a California Distinguished School and an EPIC Silver Gain recipient in 2009. In 2011, Ms. LaVan became a leadership coach for the Alliance as part of The College-Ready Promise initiative. She first came to the Alliance in 2004 as the Assistant Principal at Alliance Gertz-Ressler High School, the first Alliance College-Ready Academy. Ms. LaVan spent her career in education as a teacher and later an intervention coordinator and coordinator of the Neighborhood Academic

Initiative - 6th Grade Pre-Academy at Foshay Learning Center. Ms. LaVan received her bachelor's degree from the University of California, Los Angeles, and a master's degree in Educational Leadership with an Administrative Credential from Pepperdine University.

Robert Pambello, Vice President - Blended Learning Family Schools. Robert Pambello is responsible for supervising and evaluating principals and overseeing the instructional programs at all Alliance Blended Learning Schools. He has more than 20 years of administrative and teaching experience. In 2008, he became Principal of Alliance Judy Ivie Burton Technology Academy High School and was instrumental in the school's participation in the Alliance's Blended Learning Pilot Program, which focused on modeling how technology supports learning inside and outside of the classroom. Prior to joining the Alliance, Mr. Pambello was a Regional Director for Intervention and Support for KIPP, a leading national charter organization. He has a bachelor's in Biology Education and a master's in School Administration from the University of Arizona.

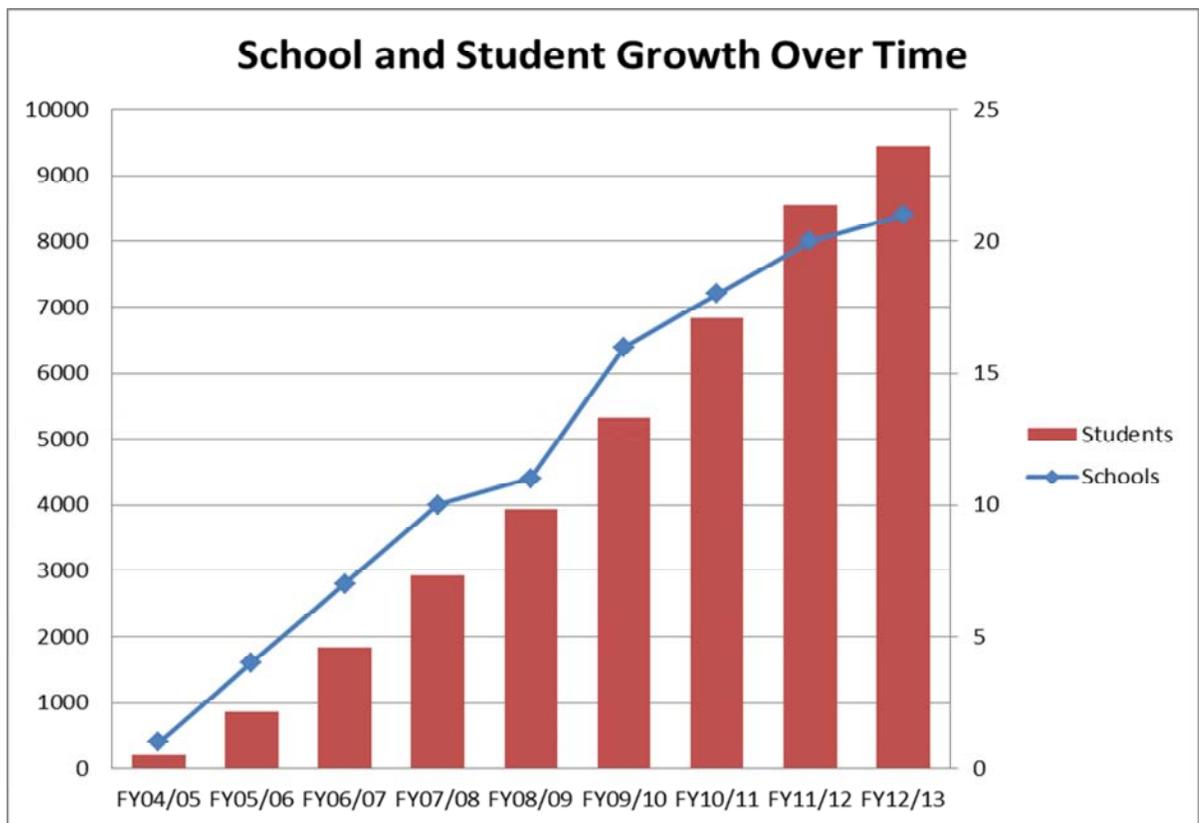
Spencer Styles, Vice President of Finance. Spencer Styles' primary areas of concentration include the maintenance of all accounting systems, ensuring the accuracy of financial reporting and compliance, designing and implementing the internal control framework, overseeing and actively managing the budget process, developing cash flow projections and forecasts for organizational growth and providing guidance on fiscal best practices. Mr. Styles came to the Alliance in December of 2009. Prior to joining the Alliance, he was a practitioner in public accounting for several years and has experience leading audits and reviews of privately held and publically traded companies, governmental agencies, not-for-profit organizations and employee benefit plans. He has also provided a wide variety of technical consulting such as litigation support, due diligence testing for mergers and acquisitions, internal control design and implementation, stock option valuation and Sarbanes Oxley Section 404 compliance and implementation. Mr. Styles graduated from the University of Wisconsin – Whitewater with a Bachelor of Business Administration degree in Accounting with a minor in Mathematics and a Master of Professional Accountancy degree with an emphasis in Finance. He is also an active Certified Public Accountant licensed in California and maintains the experience requirement to perform the full range of accounting services, including signing attestation reports. He is also licensed to conduct audits in compliance with Governmental Auditing Standards and the requirements of circulars promulgated by the U.S. Office of Management and Budget.

Laura Alvarez, Director of Human Resources. Ms. Alvarez oversees all functions of human resource management including recruitment, compensation, benefits, employee relations, employment law compliance, and the development and implementation of company policies and procedures. Before coming to Alliance, Ms. Alvarez worked as the Certificated Staff Specialist and Credential Analyst for Soledad Enrichment Action Charter School. She has extensive knowledge of State credential requirements, and experience in meeting the federal provisions set by the No Child Left Behind Act of 2001. Ms. Alvarez earned a double BA in Political Science and Sociology from the University of Southern California.

## School Growth

Since opening its first school in 2004, the Alliance network of schools has shown year-over-year growth in both the number of locations and the total enrollment. Alliance currently provides administrative services to 22 high-performance public schools serving 9,439 students in the boundaries of LAUSD. Alliance has acquired, renovated and/or constructed 16 permanent school sites and has two additional permanent sites scheduled to open in fall 2014. The table below provides a summary of Alliance’s growth since Fiscal Year 2004-05.

**Table 1**  
**Alliance for College-Ready Public Schools**  
**Total Number of Students and Schools**  
**2004-05 to 2012-13**



The map on the following page shows the location of 21 high schools and middle schools operated by Alliance. Alliance College-Ready Middle Academy 12 opened in August 2013 on 100 East 49th Street Los Angeles, California 90011 and is not included on the map.



**Alliance College-Ready  
Public Schools**  
601 S. Figueroa Street, 4th Fl.  
Los Angeles, CA 90017  
213-943-4930  
www.laalliance.org

Every student has the ability.  
We give them the opportunity.



- |   |  |  |   |
|---|--|--|---|
| <p>1. <b>Alliance Gertz-Ressler High School</b><br/>2023 South Union Avenue<br/>Los Angeles, CA 90007<br/>213-745-8141</p>              | <p>7. <b>Alliance Marc &amp; Eva Stern Math and Science High School</b><br/>5151 State University Drive<br/>Los Angeles, CA 90032<br/>323-987-2144</p> | <p>13. <b>Alliance Health Services Academy High School</b><br/>12226 South Western Ave.<br/>Los Angeles, CA 90047<br/>323-972-9010</p>         | <p>19. <b>Alliance Tennenbaum Family Technology High School</b><br/>2050 San Fernando Road<br/>Los Angeles, CA 90065<br/>323-276-5400</p> |
| <p>2. <b>Alliance Judy Ivie Burton Technology Academy HS</b><br/>10101 South Broadway<br/>Los Angeles, CA 90003<br/>323-920-6125</p>    | <p>8. <b>Alliance College-Ready Academy High School 5</b><br/>4610 South Main Street<br/>Los Angeles, CA 90037<br/>213-342-2874</p>                    | <p>14. <b>Alliance Media Arts and Entertainment Design HS</b><br/>5156 Whittier Boulevard<br/>Los Angeles, CA 90022<br/>323-859-0750</p>       | <p>20. <b>Alliance College-Ready Academy High School 16</b><br/>1575 West 2nd Street<br/>Los Angeles, CA 90026<br/>310-427-4837</p>       |
| <p>3. <b>Alliance Huntington Park College-Ready Academy HS</b><br/>2071 Saturn Avenue<br/>HuntingtonPark, CA 90255<br/>323-923-1588</p> | <p>9. <b>Alliance Renee &amp; Meyer Luskin Academy High School</b><br/>2941 West 70th Street<br/>Los Angeles, CA 90043<br/>323-905-1210</p>            | <p>15. <b>Alliance College-Ready Middle Academy 4</b><br/>9719 South Main Street<br/>Los Angeles, CA 90003<br/>323-451-3009</p>                | <p>21. <b>Alliance Susan &amp; Eric Smidt Technology High School</b><br/>211 Avenue 20<br/>Los Angeles, CA 90031<br/>323-352-3206</p>     |
| <p>4. <b>Alliance Richard Merkin Middle School</b><br/>2023 South Union Avenue<br/>Los Angeles, CA 90007<br/>213-748-0141</p>           | <p>10. <b>Alliance Jack H. Skirball Middle School</b><br/>603 East 115th Street<br/>Los Angeles, CA 90059<br/>323-905-1377</p>                         | <p>16. <b>Alliance College-Ready Middle Academy 5</b><br/>211 Avenue 20<br/>Los Angeles, CA 90031<br/>323-987-1680</p>                         |   |
| <p>5. <b>Alliance Dr. Olga Mohan High School</b><br/>644 West 17th Street<br/>Los Angeles, CA 90015<br/>213-342-2870</p>                | <p>11. <b>Alliance Christine O'Donovan Middle Academy</b><br/>5355 South 4th Avenue<br/>Los Angeles, CA 90043<br/>323-294-3172</p>                     | <p>17. <b>Alliance College-Ready Middle Academy 7</b><br/>2941 West 70th Street<br/>Los Angeles, CA 90043<br/>323-920-4388</p>                 |   |
| <p>6. <b>Alliance William &amp; Carol Ouchi High School</b><br/>5356 South 5th Avenue<br/>Los Angeles, CA 90043<br/>323-596-2290</p>    | <p>12. <b>Alliance Environmental Science and Technology High School</b><br/>2930 Fletcher Drive<br/>Los Angeles, CA 90065<br/>323-739-0560</p>         | <p>18. <b>Alliance Cindy &amp; Bill Simon Technology Academy HS</b><br/>10720 Wilmington Avenue<br/>Los Angeles, CA 90002<br/>323-744-2122</p> |   |

## Charter Renewal History

Alliance has been managing charter schools in the boundaries of LAUSD since 2004. Table 2 shows information regarding the dates of charters and charter renewal history from the Alliance system of schools. Alliance has renewed twelve charters and has never had a charter renewal application denied.

**Table 2**  
**Alliance for College-Ready Public Schools**  
**Charter Renewal History**

School Name	Date of Original Charter	Date of Renewal	Date of Expiration
<b>Alliance Gertz-Ressler/Richard Merkin 6-12 Complex</b>	<b>4/13/2004</b>	<b>4/28/2009</b>	<b>6/30/2014</b>
Alliance Richard Merkin Middle School	3/8/2005	6/15/2010	6/30/2015
Alliance Judy Ivie Burton Technology High School	4/12/2005	6/15/2010	6/30/2015
Alliance Huntington Park College-Ready Academy High School	1/11/2005	6/15/2010	6/30/2015
Alliance Dr. Olga Mohan High School	3/7/2006	4/28/2009	6/30/2014
Alliance Ouchi-O'Donovan 6-12 Complex	3/7/2006	4/28/2009	6/30/2014
Alliance Marc and Eva Stern Math and Science School	3/7/2006	4/28/2009	6/30/2014
Alliance College-Ready Academy High School No. 5	3/7/2006	2/28/2011	6/30/2016
Alliance Jack H. Skirball Middle School	3/7/2006	2/28/2011	6/30/2016
Alliance Environmental Science & Technology High School	5/22/2007	4/2/2013	6/30/2018
Alliance Health Services Academy High School	5/22/2007	4/2/2013	6/30/2018
Alliance Media Arts & Entertainment Design High School	5/22/2007	4/2/2013	6/30/2018
Alliance College-Ready Middle Academy #4	4/14/2009	N/A	6/30/2014
Alliance College-Ready Middle Academy #5	4/14/2009	N/A	6/30/2014
Alliance College-Ready Middle Academy #7	10/20/2009	N/A	6/30/2015
Alliance Cindy Simon and Technology High School	10/20/2009	N/A	6/30/2015
Alliance Tennenbaum Family Technology High School	10/20/2009	N/A	6/30/2015
Alliance College-Ready Academy High School No. 16	10/20/2009	N/A	6/30/2016
Alliance Susan and Eric Smidt Technology High School	10/20/2009	N/A	6/30/2016
Alliance Renee & Meyer Luskin Academy High School	5/25/2011	N/A	6/30/2016

## Awards and Recognition

The middle and high schools operated by Alliance have been consistently recognized as among the best schools in the State. Four Alliance schools have been named California Distinguished Schools, including Alliance Gertz-Ressler High School in 2009. Alliance Gertz-Ressler High School was also a recipient in both 2009 and 2010 of the Effective Practice Incentive Community (EPIC) Gains Award, which recognizes schools for improvements in academic performance and awards educators for sharing their effective practices. In 2012 Alliance Gertz-Ressler High School was the only school in LAUSD to be named a National Blue Ribbon School by the U.S. Department of Education, an award it also received in 2011. In May 2013, *Newsweek* named seven Alliance schools one of “America’s Best High Schools” and four of those, including Alliance Gertz-Ressler High School, were ranked in the Top 25 Most Transformative High Schools in the nation. Also in 2013, six schools were named in the top 5% of all

high schools nationwide by *U.S. News & World Report*. U.S. News and World Report also ranked Alliance Gertz-Ressler High School in the top 2% of high schools nationwide in both 2012 and 2013.

### Student Academic Performance

Of incoming 9<sup>th</sup> graders to all Alliance high schools, 92% graduate in four years (vs. 66% for LAUSD and 78% for the State) and 95% of those graduates go to college. Alliance schools consistently outperform neighboring public schools, and on average outperform LAUSD and California schools on the state Academic Performance Index.

Academic Performance Index (API). The API is California’s way of comparing schools based on student test scores. The index was created in 1999 to help parents and educators recognize schools that show progress and identify schools that need help. A school’s API determines whether it receives recognition or sanctions. It is also used to compare schools in a statewide ranking system.

The California Department of Education (“CDE”) calculates a school’s API using student test results from the California Standards Tests and, for high schools, the California High School Exit Exam (“CAHSEE”), which all high school students must pass in order to receive a high school diploma. Students first take this test in grade 10. If they do not pass the test in grade ten, they have more chances to take the test. In grade 11, they can take the test two times. In grade 12, they have up to five times to take the test. The chart below summarizes the recent performance of the School and Alliance on CASHEE, compared against the State and District averages.

**Table 3  
Alliance for College-Ready Public Schools  
California High School Exit Exam (CAHSEE)**

	The School			Alliance			LAUSD			California		
	2011	2012	Growth	2011	2012	Growth	2011	2012	Growth	2011	2012	Growth
<b>Math</b>	94%	96%	2%	87%	88%	1%	75%	77%	2%	83%	84%	1%
<b>English</b>	90%	98%	8%	85%	83%	-2%	75%	76%	1%	82%	83%	1%

Each year the CDE sets specific API “growth targets” for every school. It assigns one growth target for the entire school, and it sets additional targets for ethnic groups, English Learners, special education students, or socioeconomic subgroups of students that make up a significant portion of the student body. Schools are required to meet all of their growth targets. If they do, they may be eligible to apply for awards through the California School Recognition Program and the Title I Achieving Schools Program. Additional information on the API can be found on the CDE Web site.

The School’s Academic Performance Index (API) has been consistently higher than the State and District averages, and has significantly outperformed competitive high schools and middle schools nearby. In 2012, the Alliance-wide average API was 749 vs. 653 for neighboring public schools, 687 for LAUSD and 731 for the state. In 2013, Alliance Gertz-Ressler High School’s API of 839 placed it in the top 10% of all schools in LAUSD.

California Standards Test (CST). California students in grades 2 through 11 are required each year to take the STAR California Standards Test (CST). The CST is intended measure students’ progress toward achieving California’s state-adopted academic content standards in English–Language Arts (ELA), mathematics, science, and history–social science, which describe what students should know and be able to do in each grade and subject tested. The table below summarizes the recent performance of the School and Alliance on the CST compared against the District and State averages.

**Table 4**  
**Alliance Gertz-Ressler/Merkin 6-12 Complex**  
**Percentage of Students Scoring Advanced/Proficient on the California Standards Test (CST)**

	Gertz-Ressler/Merkin 6-12 Complex			Alliance			LAUSD			California		
	2011	2012	Growth	2011	2012	Growth	2011	2012	Growth	2011	2012	Growth
<b>English/Language Arts</b>												
Grade 6	45%	41%	-4%	36%	41%	5%	41%	47%	6%	55%	59%	4%
Grade 7	42%	54%	12%	42%	47%	5%	44%	49%	5%	57%	62%	5%
Grade 8	47%	51%	4%	37%	49%	12%	42%	48%	6%	57%	59%	2%
Grade 9	71%	65%	-6%	44%	46%	2%	37%	39%	2%	55%	57%	2%
Grade 10	71%	74%	3%	48%	45%	-3%	35%	39%	4%	48%	50%	2%
Grade 11	57%	66%	9%	38%	45%	7%	37%	41%	4%	45%	48%	3%
<b>Mathematics</b>												
Grade 6	42%	41%	-1%	37%	41%	4%	41%	45%	4%	53%	55%	2%
Grade 7	31%	40%	9%	41%	38%	-3%	36%	39%	3%	50%	52%	2%
Algebra 1	26%	27%	1%	36%	34%	-2%	24%	27%	3%	32%	34%	2%
Algebra 2	47%	51%	4%	27%	23%	-4%	17%	17%	0%	33%	34%	1%
Geometry	29%	25%	-4%	21%	26%	5%	17%	21%	4%	31%	32%	1%
Summative Math	48%	58%	10%	42%	43%	1%	37%	36%	-1%	55%	53%	-2%
<b>History/Social Science</b>												
History Grade 8	64%	48%	-16%	55%	48%	-7%	41%	42%	1%	50%	52%	2%
World History	75%	78%	3%	50%	44%	-6%	28%	31%	3%	44%	46%	2%
US History	68%	80%	12%	53%	53%	0%	37%	38%	1%	48%	48%	0%
<b>Science</b>												
Grade 8	77%	69%	-8%	63%	63%	0%	51%	55%	4%	50%	66%	16%
Biology	83%	61%	-22%	48%	49%	1%	31%	35%	4%	49%	52%	3%
Chemistry	29%	49%	20%	30%	27%	-3%	15%	20%	5%	38%	43%	5%
Physics	n/a	20%	n/a	17%	22%	5%	29%	29%	0%	52%	53%	1%

### **The Borrower and Sole Member**

The Borrower is 2023 Union LLC (the “Borrower”), a California limited liability company whose sole member is Alliance for College-Ready Public Schools Facilities Corporation, a California nonprofit public benefit corporation and 501(c)(3) organization (the “Sole Member”). The Borrower owns the Facility that is leased to the School. See “THE FACILITY” in the Limited Offering Memorandum for a description of the Facility.

In 2011, Alliance formed the Sole Member to serve as a support organization for the various charter schools that have been or will be formed by, and receive certain administrative services from, Alliance.

*While Alliance formed or caused to be formed the School, the Sole Member and the Borrower, neither Alliance nor the Sole Member is a party to the Loan Agreement, the Lease or any other document securing the Bonds, and neither Alliance nor the Sole Member has any liability or direct responsibility with respect thereto.*

## The Gertz-Ressler/Merkin School 6-12 Complex

Alliance Gertz-Ressler High School was founded in 2004 and enrolled its first class of 209 ninth grade students in the 2004-05 school year. Grades 10 through 12 were added in the subsequent three years, and the first class of students in grade 12 graduated in 2007-08. The School had approximately 526 students in the 2012-13 school year.

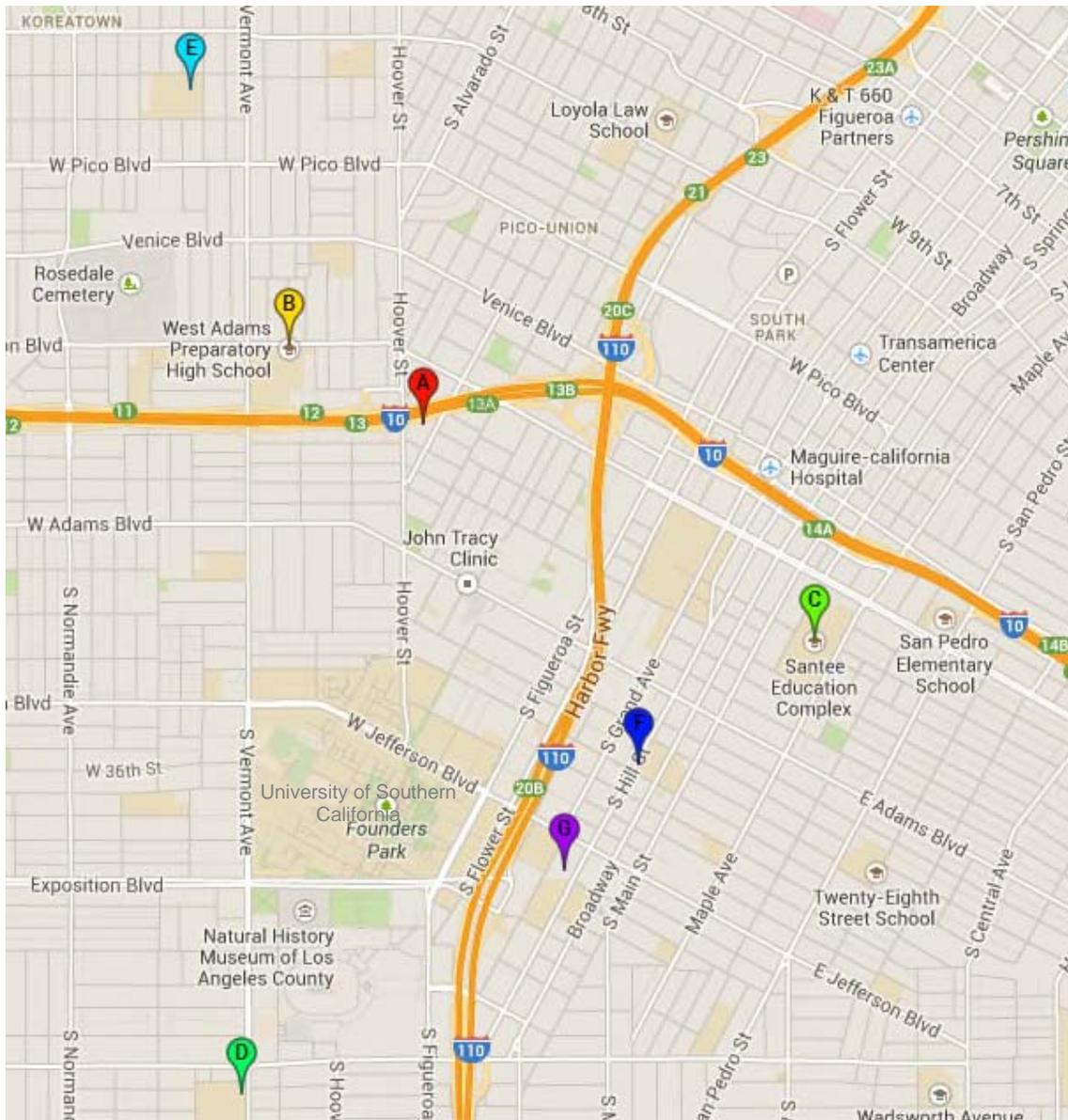
Alliance Richard Merkin Middle School enrolled its first students in the 2005-06 school year to serve students in grades 6-8. Initial enrollment included 124 students in grade six. In 2012-13, approximately 468 students were enrolled in grades 6-8.

The table below offers a comparison of the API scores for the School and for competing schools for 2011 through 2013. Table 6 on the following page provides a map of these competing schools.

**Table 5**  
**Alliance for College-Ready Public Schools**  
**Academic Performance Index (API) Comparison**  
**2010-2013**

	Key	2011	2012	2013
<i>Alliance Gertz-Ressler/Richard Merkin 6-12 Complex</i>	A	800	793	802
Alliance for College-Ready Public School (system-wide)		742	749	760
LAUSD		729	746	749
State of California		760	772	773
<b>Competitive High Schools</b>				
<i>Alliance Gertz-Ressler High School</i>	A	842	838	839
West Adams Prep High School	B	634	632	646
Santee High School	C	565	612	636
Manual Arts High School	D	572	593	626
<b>Competitive Middle Schools</b>				
<i>Alliance Richard Merkin Middle School</i>	A	758	747	764
Berendo Middle School	E	700	739	749
John Adams Middle School	F	711	742	725
Clinton Middle School	G	615	639	673

**Table 6**  
**Alliance Gertz-Ressler/Merkin 6-12 Complex**  
**Local Competitive Schools**



The Charters. In April 2013, Alliance submitted to LAUSD a revision to Alliance Gertz-Ressler High School’s charter petition. Per the revision, Alliance Gertz-Ressler High School and Alliance Richard Merkin Middle School were merged to one school serving grades 6-12. This revised petition was approved by the LAUSD Board in May 2013. The charter was amended to ensure a consistent feeder pattern and matriculation path for students who are attending Alliance Richard Merkin Middle School. As amended, the Alliance Gertz-Ressler/Richard Merkin 6-12 Complex will consist of a 6<sup>th</sup>-8<sup>th</sup> grade academy and a 9<sup>th</sup>-12<sup>th</sup> grade academy, both governed under a single charter. While the academies will operate under a single charter, each academy will have its own principal and its own faculty and staff.

Because two schools were combined into the School in 2013, references to “School” statistics herein for prior years includes both predecessor schools.

The Charter Alliance Richard Merkin Middle School submitted its original charter petition (the “Charter”) to LAUSD which granted original approval in 2005. The Charter was last renewed in 2010 and currently expires in 2015.

Alliance Gertz-Ressler High School was granted approval from LAUSD for its original charter petition in 2004. The Charter was renewed in April, 2009 and currently expires on June 30, 2014. A material revision was made to the charter in 2013 as described above. No assurance can be given that any subsequent renewal applications will be approved. See “RISKS TO THE OWNERS OF THE BONDS – Specific Risks of Charter Schools – Non-Renewal or Revocation of Charters” in the main body of this Limited Offering Memorandum.

The Charter has no limit on the number of renewals that may be granted so long as certain specific criteria are met in accordance with the provisions of Chapter 2 of Part 26.8 of the California Education Code. See “CHARTER SCHOOLS” in the main body of this Limited Offering Memorandum.

The School must file annual reports with the LAUSD setting forth certain formative and summative data to demonstrate that the School is meeting or making progress towards all of the performance standards described by the STAR and other assessments. Under the Charter, disagreements with the LAUSD are subject to mediation.

The Charter and federal law require teachers to meet the credential requirements defined in the California Education Code. See “CHARTER SCHOOLS” in the main body of this Limited Offering Memorandum. All teachers are required to take a drug and tuberculosis test. The Charter requires the School to conduct their financial operations in accordance with the established policies of the LAUSD. The Charter and State law require the School to produce an annual audit. The Charter requires the School to pay for any services that the LAUSD provides beyond the level of support given by the LAUSD to its existing schools, in accordance with a separate memorandum of understanding and requires the School to maintain a balanced budget. Annually, the School must report to LAUSD that it is self-supporting and operating at no cost to the LAUSD.

The Charter may be revoked if the School (i) commits a material violation of any of the conditions, standards or procedures set forth therein, or (ii) fails to meet or to pursue any of the outcomes identified in the Charter, or (iii) fails to meet generally accepted standards of fiscal management of (iv) violates any provision of law. See “RISKS TO THE OWNERS OF THE BONDS – Specific Risks of Charter Schools” in the main body of this Limited Offering Memorandum.

A copy of the School’s Charter is available upon request. To obtain a copy, please contact Jennifer Drake, Alliance for College-Ready Public Schools, 601 South Figueroa Street Suite 400, 4<sup>th</sup> Floor, Los Angeles, CA 90017.

### **Teachers and Staff**

Principals select teachers knowledgeable in their field to provide students a high quality education. Alliance believes that highly qualified teachers ensure an academically rich learning experience for all students. Teachers are selected on a rigorous hiring process that includes a sample teaching lesson as part of the interview process. The State requires that all teachers hold a valid credential in order to provide classroom instruction in California. Credentials are initially offered on a temporary basis, and must be “cleared” within five years in order to become permanent.

As of May 20, 2013, the School employed 44 teachers. All teaching staff is credentialed. Many teachers have previous teaching experience, however, many also have backgrounds in other professions. These include law, journalism, radio broadcasting, military, law enforcement, counseling, environmental education, fundraising, small business ownership and customer relations. Teachers receive bi-annual reviews, formative and summative evaluations and official counseling. Teachers are eligible to receive a yearly bonus, depending upon school performance.

The School provides its teachers at least nine full days of professional development each year. In addition, teachers are required to participate in two hours of weekly professional development, usually offered at the school site.

As of May 20, 2013, the number of full-time classified employees of the School was 23. These non-teaching employees include an office manager and administrative assistants. Table 7 below sets forth the number of full-time employees of the School, their levels of experience and training, as well as the percentage of teachers returning from the previous year.

**Table 7**  
**Alliance Gertz-Ressler/Merkin 6-12 Complex**  
**Teacher Tenure and Experience**  
**2009-10 to 2011-12**

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
<b>Non-Teaching Employees</b>	26	27	23
<b>Number of teachers</b>	44	46	51
<b>Average of Years Teaching Experience</b>	5	6	3
<b>Percent of Teachers with Clear Credential</b>	84.0%	93.4%	94.1%
<b>Percent of Teachers with Temporary Credential</b>	16.0%	6.5%	4.7%
<b>Retention Rate</b>	78.3%	77.3%	80.9%

### **Enrollment Selection Procedures**

To date, the School chooses its students for enrollment using a lottery system. Beginning annually in the first week of May, the School makes a lottery application available to interested applicants. Interested students and their parents provide the following information: current grade and school of attendance; student's name; parents' names; address, ZIP Code and phone numbers; special education needs; names of siblings, if any, attending a full-time classroom program at the School.

The School follows a particular procedure when conducting the lottery. For each grade, the number of students applying are grouped and randomly sorted with the only priority being given the siblings of students already enrolled at the school. The School then select students, using the priority system, in an open meeting in front of parents, staff and board members.

### **Historical and Projected Enrollment**

Alliance Gertz-Ressler High School welcomed its first class of 209 ninth-grade students for the 2004-05 school year, and graduated its first class of twelfth grade students during the 2007-08 school year. Alliance Richard Merkin Middle School welcomed its first class of 124 sixth grade students for the start of the 2005-06 school year. The School now enrolls over a thousand students, and is open to any resident of the LAUSD, provided demand does not exceed capacity.

**Table 8**  
**Alliance Gertz-Ressler/Merkin 6-12 Complex**  
**Historical and Projected ADA by Grade**

<b>Fiscal Year</b>	<b>Grade 6</b>	<b>Grade 7</b>	<b>Grade 8</b>	<b>Grade 9</b>	<b>Grade 10</b>	<b>Grade 11</b>	<b>Grade 12</b>	<b>Total</b>
<b>2004-05</b>	0	0	0	209	0	0	0	209
<b>2005-06</b>	124	0	0	133	198	0	0	455
<b>2006-07</b>	136	128	0	120	137	185	0	706
<b>2007-08</b>	138	138	128	129	109	118	151	911
<b>2008-09</b>	141	137	131	148	132	117	105	911
<b>2009-10</b>	143	138	140	142	135	111	98	907
<b>2010-11</b>	149	149	147	152	130	131	105	963
<b>2011-12</b>	159	157	155	156	137	118	124	1006
<b>2012-13</b>	159	156	154	163	131	124	107	994
<b>2013-14</b>	159	157	155	155	138	118	123	1005
<b>2014-15<sup>(1)</sup></b>	143	142	143	132	132	130	129	950
<b>2015-16<sup>(1)</sup></b>	143	142	143	132	132	130	129	950
<b>2016-17<sup>(1)</sup></b>	143	142	143	132	132	130	129	950
<b>2017-18<sup>(1)</sup></b>	143	142	143	132	132	130	129	950

<sup>1</sup> Projected.

Student Retention Rates. In each of the past three years, the School has retained 90% or more of its students. The School's student retention rates from prior years are detailed in Table 9 below.

**Table 9**  
**Alliance Gertz-Ressler/Merkin 6-12 Complex**  
**Student Retention rates 2010-11 to 2012-13**

<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
92%	90%	90%

2013-2014 Student Recruitment; Application; Student Waitlist. Aside from the returning students, the School had a recruitment goal of 150 students for each middle school class and 138 for each high school class for the 2013-2014 school year. For sixth grade, it received approximately 300 applications for those seats and has admitted 173 students for the 2013-2014 school year. 202 and 69 applications were received for seventh and eighth grade, respectively, in addition to the 150 returning students in each grade. Furthermore, 294 ninth grade applications were received of which 165 were admitted by the School, of which \_\_ chose to enroll.

Historically, there have been more students expressing interest in attending the School than the school can accommodate. The bulk of the demand is concentrated in grades 6, 7 and 9, where students are typically matriculating from elementary or middle school and thus have the opportunity to consider enrolling at the School. As of the beginning of the 2013-14 school year, there were 548 students on the waiting list for enrollment to the School. Admission to the School is chosen by lottery and is open to any resident of the LAUSD. If demand should exceed capacity at the School, preference is given to students currently enrolled at the School and students whose siblings are currently enrolled at the School. Table 10 on the following page summarizes the School's waitlist by grade for the 2013-14 school year.

**Table 10**  
**Alliance Gertz-Ressler/Merkin 6-12 Complex**  
**2013-14 Student Waitlist by Grade**

<b>Fiscal Year</b>	<b>Grade 6</b>	<b>Grade 7</b>	<b>Grade 8</b>	<b>Grade 9</b>	<b>Grade 10</b>	<b>Grade 11</b>	<b>Grade 12</b>	<b>Total</b>
2013-14	127	202	69	129	11	8	2	548

**Board of Directors of the School**

The School is governed by an eight-member Board of Directors (the “School Board”). All members of the School Board are elected for three-year terms. The School Board [is a self-appointing body/is selected by the Board of Alliance]. The School Board meets quarterly to approve substantive policy issues including major expenditures, staffing policies, spending policies, and approval of the annual business plan. The School Board appoints the School principal who serves at the pleasure of the School Board. The School Board members also preside over graduation ceremonies and other public events and elect a Chair who serves until such officer resigns, is removed or is otherwise disqualified to serve or until the officer’s successor is elected and qualified. The members of the School Board and their primary affiliations as of May 20, 2013, are as follows:

<b>Member</b>	<b>Primary Affiliation</b>
Judy Burton	CEO, Alliance for College-Ready Public Schools
Gayle Miller	Alliance for College-Ready Public Schools Board Member
Dale Okuno	Alliance for College-Ready Public Schools Board Member
Marie Washington	Alliance for College-Ready Public Schools Board Member
Darlene Robles	Alliance for College-Ready Public Schools Board Member
TBD	Teacher, Alliance Gertz-Ressler/Richard Merkin 6-12 Complex
TBD	Teacher, Alliance Gertz-Ressler/Richard Merkin 6-12 Complex
TBD	Parent, Alliance Gertz-Ressler/Richard Merkin 6-12 Complex

**Parent Advisory Board**

In accordance with its charter, the School has a Parent Advisory Board (“PAB”), which is comprised of parents or guardians of students currently or previously enrolled at the School. One of the primary responsibilities of the PAB is to promote parental involvement in the daily affairs of students and the School. The PAB also provides assistance with student activities, fundraising, technical support, and clerical help. PAB meetings are held approximately every six weeks.

**FINANCIAL PERFORMANCE OF THE SCHOOL\***

**Key Financial Assumptions**

The financial information set forth below for the School reflects, among other things, the following assumptions other than student average daily attendance shown, which does not increase in future year projections:

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\* Preliminary; subject to change.

1. For fiscal years 2012-2013 through 2015-2016, the projections assume an increase in revenues and expenses of 1% per year.

2. No charitable contributions to the School are contained in the projections.

As noted elsewhere herein, the management fees shown in expenses for the School are subordinate to the payment of Lease payments and operating expenses.

As also described herein, projections are subject to future events which cannot be forecast with a high degree of accuracy, particularly State Payments in light of the State of California budget situation. See "STATE FUNDING OF EDUCATION" in the Limited Offering Memorandum.

### **Cautionary Statements Regarding Forward-Looking Statements in this Limited Offering Memorandum**

Certain statements included or incorporated in this Limited Offering Memorandum including, but not limited to, this Appendix, constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. ALLIANCE DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IN THIS APPENDIX IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR OR FAIL TO OCCUR.

Under State law, charter schools are unique within the K-12 public education system. While charter schools are financed on the same per-pupil funding basis as traditional public schools, they have more flexibility and more accountability than traditional public schools. Charter schools enjoy much of the curriculum and educational flexibility of private schools, yet they may not charge tuition or have admission requirements. See "CHARTER SCHOOLS" in the Limited Offering Memorandum for general information on California charter schools. Each school's charter requires that the school meet or make progress towards certain academic and fiscal goals.

### **California Budgetary Pressures; Cash Management Strategies**

Given the uncertain nature of public funding in the state of California, Alliance has developed strategies to deal with the deferral of apportionment payments. Before the start of each year, every school goes through a detailed month-by-month budgeting and cash flow analysis process based on the apportionment payment schedule issued by the state. If a school is projected to have inadequate cash flow from time to time during the year, intercompany loans between Alliance and the school are made to cover the temporary shortfall. Intercompany loans are expected to be repaid when the deferred cash is received. This process enables management to anticipate cash needs well in advance of any shortfall and the use of internal leverage allows the combined organization to reduce interest costs.

## **The Management Agreement**

Alliance has entered into a management services agreement (the “Management Contract”) with the School pursuant to which, among other things, Alliance will receive 7% of total revenues of the School in return for all oversight and administrative services, including payroll, benefits, information technology, finance and budgeting, human resources, fundraising and instructional guidance. Pursuant to a letter agreement amending the Management contract, the management fees owed to Alliance by the School will be subordinate to the obligation of the School under its Lease to make Lease Payments to the Borrower.

## **Revenue Limit Revenues**

The vast majority of funds for the operations of the School come from the State based upon average daily attendance (“ADA”). The amount of this allocation (“Revenue Limit”) is set by the State to ensure equity in funding across school districts, regardless of the local tax base. Revenue Limit is characterized as principal Apportionment/State Aid and Charter School’s Funding in Lieu of Property Taxes in the Statement of Activities tables including the audited financial statements of the School.

The actual monies are a combination of local property taxes and State aid. The Revenue Limit is set in the spring prior to a school year, and is legally required to be at least as much as the previous year. Management expects enrollment to be stable or increase from year to year primarily due to the School’s waiting list. Students are enrolled approximately four months before the start of school. See “STATE FUNDING OF EDUCATION” in the Limited Offering Memorandum.

## **Relationship Between Enrollment and Average Daily Attendance**

In the description below, there is information about school enrollment, but State payments for students are based upon ADA which, in most cases, is lower than enrollment. This is because the enrollment number represents the total number of pupils that are enrolled as of the previous June 30. ADA is a running average of students in attendance on a given day, and thus often is lower than actual enrollment.

## **SB 740**

The School is eligible to receive funding under the California School Facility Grant Program established pursuant to Senate Bill (“SB 740”), which provides for reimbursement of facilities lease costs of 75% of the actual lease cost to the extent funded by the State up to a limit of \$750 per unit of classroom based ADA as certified at the second principal apportionment. To be eligible for SB 740 reimbursement a charter school must serve a student population with at least 70% of their student population eligible for free or reduced lunch, or be located in a public school attendance area with such composition. For fiscal year 2012-13 Alliance Gertz-Ressler High School received approximately \$376,000 under SB 740, and Richard Merkin Middle School received approximately \$240,000 under SB 740. While the School received SB 740 funding for the fiscal year ending June 30, 2013, there can be no assurance that any particular level of SB 740 funding will be available in any future year. The state revenue projections in Table 11 below assume the receipt of approximately \$450,000 per year in aggregate apportionments under SB 740 for each of the fiscal years 2014 through 2018.

## **Other Revenue Sources**

The School also receives funds from the California State lottery and investment income. The School does not anticipate any significant increase in their other revenue sources in the near future.

## **Budget Process**

The School sets its respective budget for each school year in the spring, after both ADA and enrollment can be estimated with a greater degree of certainty. Senior management of Alliance recommends the spending priorities, working within established guidelines regarding teacher salaries, program requirements, deferred expenditures, and reserve requirements. Historically, actual ADA has exceeded projections. The School uses budgetary controls that meet the standards of the State for public school districts, including regular interim budget variance reports, and submits its interim financial statements to the LAUSD. See “STATE FUNDING OF EDUCATION” in the Limited Offering Memorandum.

## **Non-Sectarian**

The School is non-sectarian in its programs, admission policies, employment practices and all other operations and does not charge tuition. The School has adopted a policy not to discriminate against any pupil, employee or other on the basis of ethnicity, national origin, gender or disability.

## **Retirement Plans**

Through the State, the employees of the School, along with other Alliance Schools, participate in the California State Teachers Retirement System (“STRS”) or the California Public Employees Retirement System (“PERS”). Employees who are not members of STRS or PERS contribute to social security. The School makes employer contributions as required by STRS, PERS and federal social security. In 2011, Alliance made contributions to STRS and PERS of \$1,797,893 and \$349,597, respectively, representing 100% of the amounts required. In 2012, Alliance’s contributions to STRS and PERS increased to \$2,171,527 and \$398,838, respectively, representing 100% of the amounts required. Reference is made to the audited and unaudited financial statement included in Appendix B to this Limited Offering Memorandum, for a description of the pension plan.

## **Financial Statements; Financial Projections**

Tables 11 and 12 present the historical and projected revenue and expenditures and debt service coverage calculated for the School. See Appendix B hereto for the audited financial statements for Alliance for the year ended June 30, 2012 with comparative totals for the year ended June 30, 2011. Financial information for the School for fiscal year 2012 is found in the supplementary information section of the Alliance audit. Unaudited financial statements of the School and Alliance for the year ended June 30, 2013 are also included in Appendix B.

**Table 11**  
**Alliance Gertz-Ressler/Merkin 6-12 Complex**  
**Historical and Projected Revenue and Expenditure Statement**

	Audited	Audited	Audited	Audited	Audited	Audited	Actual	Projected	Projected	Projected	Projected	Projected
Fiscal Year Ending June 30 <sup>(1)</sup>	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ADA Student Counts:	<b>671</b>	<b>865</b>	<b>865</b>	<b>862</b>	<b>915</b>	<b>956</b>	<b>971</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>950</b>
<i>Revenue</i>												
Private grants and contributions	\$ 77,551	\$ 224,286	\$ 311,869	\$ 81,843	\$ 59,760	\$ 115,274	\$ 126,187	\$ -	\$ -	\$ -	\$ -	\$ -
Federal revenue	613,044	880,498	1,809,708	1,556,095	1,366,477	1,488,361	1,593,723	1,402,717	1,591,618	1,593,037	1,594,470	1,595,917
State revenue	4,575,285	6,469,319	6,307,994	6,076,042	6,183,815	6,407,412	6,717,498	7,019,110	6,879,803	6,936,243	6,993,249	7,050,825
Local revenue	783,403	1,116,965	1,143,816	1,263,140	1,140,750	1,296,148	1,349,029	1,331,900	1,345,219	1,358,671	1,372,258	1,385,980
Fundraising income	31,035	147,189	137,421	138,019	145,775	104,946	62,267	93,100	93,100	93,100	93,100	93,100
Other income	52,550	69,969	25,230	912	4,968	14,473	24,647	22,868	23,063	23,259	23,459	23,660
<b>Total Revenue</b>	<b>\$ 6,132,868</b>	<b>\$ 8,908,226</b>	<b>\$ 9,736,038</b>	<b>\$ 9,116,051</b>	<b>\$ 8,901,545</b>	<b>\$ 9,426,614</b>	<b>\$ 9,873,351</b>	<b>\$ 9,869,695</b>	<b>\$ 9,932,803</b>	<b>\$ 10,004,310</b>	<b>\$ 10,076,536</b>	<b>\$ 10,149,482</b>
<i>Operating Expenses</i>												
Salaries and wages	\$ 2,402,111	\$ 3,247,712	\$ 3,773,007	\$ 3,623,768	\$ 3,700,322	\$ 3,606,667	\$ 3,770,134	\$ 4,036,910	\$ 4,077,279	\$ 4,118,052	\$ 4,159,232	\$ 4,200,825
Employee benefits	458,468	676,589	828,952	820,285	881,471	830,803	866,477	975,143	984,894	994,743	1,004,690	1,014,737
Books and supplies	976,621	1,037,253	1,093,515	932,633	937,836	968,724	1,122,567	1,031,494	1,032,121	1,035,659	1,039,232	1,042,842
Subagreement services	131,210	178,009	199,979	301,037	134,402	234,842	204,751	231,150	233,462	235,796	238,154	240,536
Professional and consulting services	532,228	1,121,950	961,992	1,112,343	941,134	977,655	943,706	991,151	1,117,937	1,124,101	1,130,327	1,136,616
Facilities, repairs and other leases	481,843	1,323,896	1,187,324	1,411,010	1,405,531	1,447,280	1,602,276	472,792	474,918	477,063	479,231	481,420
Administrative	461,127	540,732	631,532	395,430	507,119	428,957	443,671	421,922	425,897	429,910	433,965	438,059
Depreciation	12,610	12,685	14,326	35,277	64,374	66,019	61,878	59,000	59,590	60,186	60,787	61,396
Debt Service	0	0	0	0	0	0	0	1,098,049	1,098,338	1,095,200	1,096,800	1,097,875
<b>Total Operating Expenses</b>	<b>\$ 5,456,218</b>	<b>\$ 8,138,826</b>	<b>\$ 8,690,627</b>	<b>\$ 8,631,783</b>	<b>\$ 8,572,189</b>	<b>\$ 8,560,947</b>	<b>\$ 9,015,460</b>	<b>\$ 9,317,611</b>	<b>\$ 9,504,436</b>	<b>\$ 9,570,710</b>	<b>\$ 9,642,418</b>	<b>\$ 9,714,306</b>
<b>Change in Net Assets</b>	<b>\$ 676,650</b>	<b>\$ 769,400</b>	<b>\$ 1,045,411</b>	<b>\$ 484,268</b>	<b>\$ 329,356</b>	<b>\$ 865,667</b>	<b>\$ 857,891</b>	<b>\$ 552,084</b>	<b>\$ 428,368</b>	<b>\$ 433,600</b>	<b>\$ 434,118</b>	<b>\$ 435,176</b>
<b>Net assets, beginning of year</b>	<b>855,645</b>	<b>1,532,295</b>	<b>2,301,695</b>	<b>3,347,106</b>	<b>3,831,374</b>	<b>4,160,730</b>	<b>5,026,397</b>	<b>5,884,288</b>	<b>6,436,372</b>	<b>6,864,739</b>	<b>7,298,339</b>	<b>7,732,457</b>
<b>Prior period adjustments <sup>(2)</sup></b>	<b>-</b>	<b>-</b>	<b>-</b>									
<b>Net assets, end of year</b>	<b>\$ 1,532,295</b>	<b>\$ 2,301,695</b>	<b>\$ 3,347,106</b>	<b>\$ 3,831,374</b>	<b>\$ 4,160,730</b>	<b>\$ 5,026,397</b>	<b>\$ 5,884,288</b>	<b>\$ 6,436,372</b>	<b>\$ 6,864,739</b>	<b>\$ 7,298,339</b>	<b>\$ 7,732,457</b>	<b>\$ 8,167,633</b>

Source: Alliance College Ready Public Schools

(1) Projected revenues for fiscal years 2014 through 2018 assume per pupil state apportionment funding and federal revenue sources increase at 1% per year.

**Table 12**  
**Alliance Gertz-Ressler/Merkin 6-12 Complex**  
**Debt Service Coverage and Cash on Hand, 2007-2018**

Debt Service Coverage												
Fiscal Year Ending June 30	Audited 2007	Audited 2008	Audited 2009	Audited 2010	Audited 2011	Audited 2012	Actual 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018
<b>Net Revenue</b>	\$ 676,650	\$ 769,400	\$ 1,045,411	\$ 484,268	\$ 329,356	\$ 865,667	\$ 857,891	\$ 552,084	\$ 428,368	\$ 433,600	\$ 434,118	\$ 435,176
<b>Adjustments</b>												
Depreciation <sup>(1)</sup>	12,610	12,685	14,326	35,277	64,374	66,019	61,878	59,000	59,590	60,186	60,787	61,396
Facility lease	842,828	932,259	1,187,324	1,355,785	1,241,643	1,178,986	822,553	366,667				
Debt service	-	-	-	-	-	-	-	1,098,049	1,098,338	1,095,200	1,096,800	1,097,875
<b>Cashflow available for lease/debt service payments</b>	<b>\$ 1,532,088</b>	<b>\$ 1,714,344</b>	<b>\$ 2,247,061</b>	<b>\$ 1,875,330</b>	<b>\$ 1,635,373</b>	<b>\$ 2,110,672</b>	<b>\$ 1,742,322</b>	<b>\$ 2,075,800</b>	<b>\$ 1,586,295</b>	<b>\$ 1,588,986</b>	<b>\$ 1,591,705</b>	<b>\$ 1,594,447</b>
<b>% of lease/debt service to total revenues</b>	<b>13.74%</b>	<b>10.47%</b>	<b>12.20%</b>	<b>14.87%</b>	<b>13.95%</b>	<b>12.51%</b>	<b>8.33%</b>	<b>14.84%</b>	<b>11.06%</b>	<b>10.95%</b>	<b>10.88%</b>	<b>10.82%</b>
<b>Lease/debt service payments</b>	<b>\$ 842,828</b>	<b>\$ 932,259</b>	<b>\$ 1,187,324</b>	<b>\$ 1,355,785</b>	<b>\$ 1,241,643</b>	<b>\$ 1,178,986</b>	<b>\$ 822,553</b>	<b>\$ 1,464,716</b>	<b>\$ 1,098,338</b>	<b>\$ 1,095,200</b>	<b>\$ 1,096,800</b>	<b>\$ 1,097,875</b>
<b>Lease/debt service coverage (annual)</b>	<b>1.818</b>	<b>1.839</b>	<b>1.893</b>	<b>1.383</b>	<b>1.317</b>	<b>1.790</b>	<b>2.118</b>	<b>1.417</b>	<b>1.444</b>	<b>1.451</b>	<b>1.451</b>	<b>1.452</b>
<b>Debt service coverage (maximum annual bond debt service)</b>	<b>1.394</b>	<b>1.559</b>	<b>2.044</b>	<b>1.706</b>	<b>1.487</b>	<b>1.920</b>	<b>1.585</b>	<b>1.888</b>	<b>1.443</b>	<b>1.445</b>	<b>1.448</b>	<b>1.450</b>
<b>Management fee (7% of revenues)</b>								<b>\$ 656,258</b>	<b>\$ 660,963</b>	<b>\$ 668,481</b>	<b>\$ 678,957</b>	<b>\$ 689,578</b>
<b>Revenue available for lease/debt service payments, incl. mgmt fee</b>								<b>\$ 2,732,058</b>	<b>\$ 2,247,258</b>	<b>\$ 2,257,467</b>	<b>\$ 2,270,662</b>	<b>\$ 2,284,025</b>
<b>Lease/debt service payments coverage ratio, excluding mgmt fee</b>								<b>1.865</b>	<b>2.046</b>	<b>2.061</b>	<b>2.070</b>	<b>2.080</b>
Days Cash on Hand												
Fiscal Year Ending June 30	Audited 2007	Audited 2008	Audited 2009	Audited 2010	Audited 2011	Audited 2012	Actual 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018
<b>Cash</b>	<b>\$ 270,194</b>	<b>\$ 768,638</b>	<b>\$ 2,495,952</b>	<b>\$ 842,066</b>	<b>\$ 1,930,411</b>	<b>\$ 2,423,485</b>	<b>\$ 2,489,504</b>	<b>\$ 3,409,273</b>	<b>\$ 4,020,357</b>	<b>\$ 4,508,314</b>	<b>\$ 5,002,100</b>	<b>\$ 5,497,005</b>
<b>Adjustments</b>												
Net Revenue	-	-	-	-	-	-	857,891	552,084	428,368	433,600	434,118	435,176
Depreciation	12,610	12,685	14,326	35,277	64,374	66,019	61,878	59,000	59,590	60,186	60,787	61,396
<b>Adjusted Cash <sup>(2)</sup></b>	<b>\$ 282,804</b>	<b>\$ 781,323</b>	<b>\$ 2,510,278</b>	<b>\$ 877,343</b>	<b>\$ 1,994,785</b>	<b>\$ 2,489,504</b>	<b>\$ 3,409,273</b>	<b>\$ 4,020,357</b>	<b>\$ 4,508,314</b>	<b>\$ 5,002,100</b>	<b>\$ 5,497,005</b>	<b>\$ 5,993,577</b>
<b>Adjusted Days Cash on Hand</b>	<b>18.92</b>	<b>35.04</b>	<b>105.43</b>	<b>37.10</b>	<b>84.94</b>	<b>106.14</b>	<b>138.03</b>	<b>157.46</b>	<b>173.10</b>	<b>190.67</b>	<b>208.01</b>	<b>225.15</b>

Source: Alliance College Ready Public Schools

<sup>(1)</sup> Reflects depreciation on current assets of the School. Projections for fiscal years 2013 through 2016 does not include a depreciation charge on the School's new facilities.

<sup>(2)</sup> Ending cash balance for fiscal years 2013 through 2018 are based on the prior year ending balance and adjusted to include current fiscal year net revenue and depreciation.

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF ALLIANCE FOR THE  
FISCAL YEAR ENDED JUNE 30, 2012  
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2011) AND  
UNAUDITED FINANCIAL STATEMENTS FOR THE  
FISCAL YEAR ENDED JUNE 30, 2013**

Starting with the fiscal year ending June 30, 2011 Alliance ceased obtaining separately audited financial statements for each school managed by it, including the School. Individual school information, including information for the School, is found within the audits for Alliance.

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**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES  
(A NONPROFIT ORGANIZATION)  
COMBINED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2012  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2011)**

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES  
(A NONPROFIT ORGANIZATION)  
CONTENTS  
June 30, 2012**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Alliance for College-Ready Public Schools and School Affiliates  
Los Angeles, California



We have audited the accompanying combined statement of financial position of Alliance for College-Ready Public Schools and its combined school affiliates (collectively, the "Alliance," a nonprofit organization) as of June 30, 2012, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the 2011 combined financial statements and, in our report dated December 1, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Education Audit Appeals Panel's *Standards and Procedures for Audits of California K - 12 Local Educational Agencies*. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Alliance for College-Ready Public Schools and its combined school affiliates as of June 30, 2012, and the changes in their net assets and their cash flows for the year 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 December 12, 2012 on our consideration of the Alliance's internal control over financial reporting and 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 audit.

To the Board of Directors  
Alliance for College-Ready Public Schools and School Affiliates  
Page Two

Our audit was conducted for the purpose of forming an opinion on the basic and combined financial statements as a whole. The accompanying consolidating statements of financial position and statements of activities are presented for purposes of additional analysis and are not a required part of the combined financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

*Singer Lewak LLP*

SingerLewak LLP

Los Angeles, California  
December 12, 2012

# ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS AND SCHOOL AFFILIATES

(A NONPROFIT ORGANIZATION)

## COMBINED STATEMENT OF FINANCIAL POSITION

June 30, 2012

(with Comparative Totals for June 30, 2011)

### ASSETS

	2012	2011
<b>Current assets</b>		
Cash and cash equivalents	\$ 21,588,946	\$ 28,140,848
Grants, contributions and pledges receivable, current portion	1,324,236	640,000
Related party receivable, current portion	1,155,467	300,000
Public funding receivables	19,693,089	16,004,289
Assets limited to use, current portion	24,949,137	339,102
Prepaid expenses and other current assets	1,000,229	489,537
Total current assets	69,711,104	45,913,776
Grants, contributions and pledges receivable, net of current portion	557,805	1,540,156
Related party receivable, net of current portion	2,367,920	-
Notes receivable	16,386,995	-
Deferred rent receivable	550,119	519,989
Assets limited as to use, net of current portion	5,897,016	2,680,630
Other long-term assets	334,636	600,493
Deferred financing costs, net	4,022,311	730,555
Property and equipment, net	124,008,411	89,038,834
<b>Total assets</b>	<b>\$ 223,836,317</b>	<b>\$ 141,024,433</b>

### LIABILITIES AND NET ASSETS

<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 5,114,011	\$ 6,316,772
Deferred revenue	8,520,880	10,884,552
Due to beneficiary	9,050	22,677
Related party payable	300,000	-
Capital lease obligations, current portion	27,487	26,956
Long-term debt, current portion	1,861,431	915,473
Total current liabilities	15,832,859	18,166,430
<b>Capital lease obligations, net of current portion</b>	45,225	72,711
<b>Long-term debt, net of current portion</b>	138,992,947	73,429,224
<b>Liability for asset retirement obligation</b>	255,288	-
<b>Deferred rent liability</b>	29,398	796,469
Total liabilities	155,155,717	92,464,834
<b>Commitments and contingencies (Note 14)</b>		
<b>Net assets</b>		
Unrestricted	59,718,619	44,191,167
Temporarily restricted	8,961,981	4,368,432
Total net assets	68,680,600	48,559,599
<b>Total liabilities and net assets</b>	<b>\$ 223,836,317</b>	<b>\$ 141,024,433</b>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES**  
(A NONPROFIT ORGANIZATION)  
**COMBINED STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2012  
(with Comparative Totals for the Year Ended June 30, 2011)

	Unrestricted	Temporarily Restricted	2012 Total	2011 Total
<b>Revenue and support</b>				
Private grants and contributions	\$ 6,633,328	\$ 6,411,039	\$ 13,044,367	\$ 8,149,845
Federal revenue	12,629,595	-	12,629,595	13,211,607
State apportionment	43,138,693	-	43,138,693	35,292,231
Other state revenues	12,940,375	-	12,940,375	8,298,063
Local revenues	11,020,698	-	11,020,698	8,229,325
Rental income	660,477	-	660,477	542,350
Other school revenues	888,141	-	888,141	885,957
Interest and other income	1,556,594	-	1,556,594	346,310
Net assets released from restrictions	<u>1,817,490</u>	<u>(1,817,490)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>91,285,391</u>	<u>4,593,549</u>	<u>95,878,940</u>	<u>74,955,688</u>
<b>Functional expenses</b>				
Program services	63,050,270	-	63,050,270	53,222,558
Support services				
General and administrative	12,264,211	-	12,264,211	10,076,840
Fundraising	<u>443,458</u>	<u>-</u>	<u>443,458</u>	<u>365,142</u>
Total functional expenses	<u>75,757,939</u>	<u>-</u>	<u>75,757,939</u>	<u>63,664,540</u>
<b>Change in net assets</b>	15,527,452	4,593,549	20,121,001	11,291,148
<b>Net assets, beginning of year</b>	<u>44,191,167</u>	<u>4,368,432</u>	<u>48,559,599</u>	<u>37,268,451</u>
<b>Net assets, end of year</b>	<u>\$ 59,718,619</u>	<u>\$ 8,961,981</u>	<u>\$ 68,680,600</u>	<u>\$ 48,559,599</u>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES**

(A NONPROFIT ORGANIZATION)

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2012**

**(with Comparative Totals for the Year Ended June 30, 2011)**

	Program Services	Support Services		2012 Total	2011 Total
		General and Administrative	Fundraising		
<b>Salaries and services</b>					
Salaries	\$ 29,704,181	\$ 4,808,204	\$ 248,777	\$ 34,761,162	\$ 29,673,533
Benefits and payroll taxes	6,512,569	1,069,375	43,657	7,625,601	6,432,305
Total salaries and benefits	<u>36,216,750</u>	<u>5,877,579</u>	<u>292,434</u>	<u>42,386,763</u>	<u>36,105,838</u>
<b>Operating expenses</b>					
Rent and facilities	4,384,622	688,043	11,402	5,084,067	5,445,579
Books and supplies	8,206,766	-	-	8,206,766	6,306,681
Office	1,256,098	2,944,919	25,337	4,226,354	4,167,621
Other school services	3,691,207	651,701	88,195	4,431,103	4,098,503
Pupil services	1,415,286	-	-	1,415,286	1,380,693
Interest	4,822,597	1,527,190	4,183	6,353,970	3,770,393
Depreciation and amortization	3,056,944	574,779	21,907	3,653,630	2,389,232
Total operating expenses	<u>26,833,520</u>	<u>6,386,632</u>	<u>151,024</u>	<u>33,371,176</u>	<u>27,558,702</u>
<b>Total expenses</b>	<u>\$ 63,050,270</u>	<u>\$ 12,264,211</u>	<u>\$ 443,458</u>	<u>\$ 75,757,939</u>	<u>\$ 63,664,540</u>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES**  
(A NONPROFIT ORGANIZATION)  
**COMBINED STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2012  
(with Comparative Totals for the Year Ended June 30, 2011)

	2012	2011
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 20,121,001	\$ 11,291,148
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	3,653,630	2,389,232
Amortization of deferred financing costs	128,885	23,566
Gain on sale of property and equipment	(12,082)	-
Impairment of construction in progress	-	373,659
Accretion expense	55,288	-
Decrease (increase) in		
Grants, contributions and pledges receivable	298,115	(1,555,125)
Related party receivable	(3,223,387)	528,651
Public funding receivables	(3,688,800)	(5,781,130)
Prepaid expenses	(510,692)	514,454
Deferred rent receivable	(30,130)	(149,347)
Other assets	265,857	(424,369)
Increase (decrease) in		
Accounts payable and accrued expenses	(1,202,761)	1,364,722
Deferred revenue	(2,363,672)	4,866,042
Due to beneficiary	(13,627)	10,177
Deferred rent	(767,071)	151,060
Net cash provided by operating activities	12,710,554	13,602,740
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(20,147,502)	(22,310,264)
Proceeds from sale of property and equipment and refund of deposit	2,139,958	-
Issuance of notes receivable	(16,386,995)	-
Net cash used in investing activities	(34,394,539)	(22,310,264)
<b>Cash flows from financing activities</b>		
Transfers to assets limited as to use	(27,826,421)	(20,089)
Principal payments on long-term debt	(20,916,296)	(2,023,974)
Proceeds from long-term debt	63,601,755	21,039,654
Proceeds from related party payable	300,000	-
Payments on capital lease obligations	(26,955)	(39,915)
Net cash provided by financing activities	15,132,083	18,955,676
<b>Net (decrease) increase in cash and cash equivalents</b>	(6,551,902)	10,248,152
<b>Cash and cash equivalents, beginning of year</b>	28,140,848	17,892,696
<b>Cash and cash equivalents, end of year</b>	<b>\$ 21,588,946</b>	<b>\$ 28,140,848</b>
<b>Supplemental schedule of non-cash investing and financing activities</b>		
Property and equipment and deferred financing costs acquired through issuance of long-term debt	<b>\$ 23,824,222</b>	<b>\$ 6,081,272</b>
<b>Schedule of supplemental cash flow information</b>		
Cash paid for interest	<b>\$ 6,353,970</b>	<b>\$ 3,770,393</b>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES  
(A NONPROFIT ORGANIZATION)  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012**

---

**NOTE 1 – ORGANIZATION**

The Alliance for College-Ready Public Schools (the “Alliance”) is a nonprofit charter management organization committed to creating high-performance, small, college-ready middle schools and high schools in California. The Alliance has had a local presence, an extended history and credibility in the California market and education reform efforts since 1999. The Alliance launched its mission to create small, high-performance charter schools in 2003.

The mission of the Alliance is to open and operate a minimum of fifty excellent, small, public, high-performing middle and high schools in three historically underachieving, low-income, overcrowded target communities within California that will significantly outperform other public schools in preparing students to enter and succeed in college.

Strategies to meet this goal are to create small schools with a consistent brand of rigorous curriculum and instruction in a personalized learning environment, students learning through real-world experiences, internships and parent and community engagement. The Alliance’s goal is to open a total of thirty three small high schools of 500 to 600 students and seventeen small middle schools of 375 to 450 students. The core measure of success is that all students enrolled for four years will pass the high school exit exam, students consistently enrolled in an Alliance high school for four years will graduate and 100% of students who graduate will be ready to successfully enter college.

In August 2004, the first Alliance high school opened its doors to the graduating class of 2012 (Alliance graduates are identified by the year they will graduate from a four-year college or university.). As of June 30, 2012, there were fourteen Alliance high schools and six middle schools in operation. In August 2012, one additional high school opened its doors.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Statement Presentation

The Alliance reports information regarding its financial position and activities on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Alliance did not have any permanently restricted net assets at June 30, 2012.

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES**  
(A NONPROFIT ORGANIZATION)  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

---

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation (Continued)

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Alliance's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Principles of Consolidation

The consolidated financial statements of the Alliance include the accounts of the Alliance and its wholly-owned subsidiaries:

1. 2023 Union LLC,
2. Alliance Schools R.E. Holdings LLC,
3. 2071 HP Saturn LLC,
4. 5151 Titan LLC,
5. 10704 Wilmington LLC,
6. 9719 Main Street Charter Facilities LLC,
7. 10101 Broadway Charter Facilities LLC,
8. 70th Street Charter Facilities LLC,
9. 6900 8th Avenue Charter Facilities LLC, and
10. 1918 Broadway Charter Financing LLC.

The consolidated financial statements of the Alliance also include the accounts of the Alliance for College-Ready Public Schools Facilities Corporation and its wholly-owned subsidiaries:

1. 54<sup>th</sup> Street Lions LLC,
2. 11410 Avalon LLC,
3. 1918 Broadway Charter Facilities LLC, and
4. 4610 S. Main St. Charter Facilities LLC.

All fourteen subsidiaries are set up for the purpose of holding and managing the real estate property built or acquired to house the Alliance-affiliated schools. All material intercompany accounts and transactions of the consolidated subsidiaries have been eliminated in consolidation.

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES  
(A NONPROFIT ORGANIZATION)  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Principles of Combination

The combined financial statements include the consolidated financial statements of the Alliance, Alliance for College-Ready Public School Facilities Corporation and its subsidiaries and the assets, liabilities, revenue and support and functional expenses of the following Alliance-affiliated schools:

1. Alliance Gertz-Ressler High School,
2. Alliance Huntington Park College-Ready Academy High School,
3. Alliance Judy Ivie Burton Technology Academy High School, formerly Alliance Heritage College-Ready Academy High School,
4. Alliance Marc and Eva Stern Math and Science School,
5. Alliance Dr. Olga Mohan High School,
6. Alliance College-Ready Academy High School No. 5,
7. Alliance William and Carol Ouchi High School,
8. Alliance College-Ready Academy High School No. 7,
9. Alliance Health Services Academy High School,
10. Alliance Media Arts and Entertainment Design High School,
11. Alliance Environmental Science and Technology High School,
12. Alliance Cindy and Bill Simon Technology High School, formerly Alliance College-Ready Academy High School No. 11,
13. Alliance Tennenbaum Family Technology Family High School, formerly Alliance Technology and Math Science High School,
14. Alliance Susan and Eric Smidt Technology High School, formerly Alliance College-Ready Academy High School No. 14,
15. Alliance College-Ready Academy High School No. 16,
16. Alliance Renee Meyer Luskin Academy High School, formerly Alliance College-Ready Academy High School No. 17,
17. Alliance College-Ready Academy High School No. 18,
18. Alliance Richard Merkin Middle School,
19. Alliance Jack H. Skirball Middle School,
20. Alliance Christine O'Donovan Middle Academy,
21. Alliance College-Ready Middle Academy No. 4,
22. Alliance College-Ready Middle Academy No. 5 and
23. Alliance College-Ready Middle Academy No. 7.

All significant intercompany transactions have been eliminated in the combination.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Alliance considers investments with original maturities of less than three months to be cash equivalents.

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES  
(A NONPROFIT ORGANIZATION)  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Grants, Contributions and Pledges Receivable

Grants and contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted contributions for which the restriction has been satisfied in the same reporting period as the contribution was received are recorded as unrestricted support. Conditional contributions are recorded as support in the period the condition is met. Such contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the restriction, usually when the funds are spent. Pledges for future contributions are recorded as receivables and reported at their estimated realizable values. Advances from exchange transactions are deferred until service is provided or expense incurred. As of June 30, 2012 and 2011, deferred revenue amounted to \$8,520,880 and \$10,844,552, respectively.

Public Funding Receivables

Public funding receivables consist primarily of monies due from federal and state funding sources. The Alliance has not had issues with collectability of the public funding receivables and has not recognized an allowance for uncollectable receivables.

Conditional Promise to Give

The Alliance has received various conditional promises to give from foundations and other contributors, which are to support individual Alliance-affiliated school operations and the opening of ten new schools. As these grants and contributions are contingent upon the satisfaction of certain school and student performance goals, they are not yet recognized as assets in the combined statement of financial position.

Deferred Financing Costs

Costs incurred in obtaining long-term financing are amortized using the straight-line method, which approximates the effective interest rate method. Total financing costs incurred and deferred amounted to \$4,226,621 with \$204,310 related accumulated amortization as of June 30, 2012. Total amortization expense for the year ended June 30, 2012 was \$128,885.

Property and Equipment

Property and equipment are stated at cost. Contributed assets are stated at fair market value at the date of contribution. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which are generally two to fifty years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the term of the lease. When property and equipment are disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and the resulting gain or loss on disposition is reflected in operations. Repairs and maintenance are charged to operations as incurred, and major improvements are capitalized.

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES**  
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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Long-lived Assets

Alliance accounts for its long-lived assets with definite useful lives in accordance with Accounting Standards Codification (“Codification” or “ASC”) Topic No. 360, “Accounting for the Impairment or Disposal of Long-lived Assets.” Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Alliance first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment loss is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. The Alliance determined that none of its long-lived assets were impaired during the year ended June 30, 2012.

Income Taxes

The Alliance is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Alliance, its subsidiaries and its affiliates file annual informational tax returns in the U.S. federal and California jurisdictions.

ASC Topic No. 740 (“ASC 740”), “Uncertainty in Income Taxes,” clarifies the accounting for uncertainty in income taxes. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In accordance with ASC 740, the Alliance recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. As of and for the year ended June 30, 2012, the Alliance had no unrecognized/derecognized tax benefits or tax penalties or interest. At June 30, 2012, the open tax years for the Alliance were 2007 to 2011.

Deferred Rent

Certain leases include scheduled escalating monthly rent payments. In accordance with accounting principles generally accepted in the United States of America, the Alliance accounted for these leases on a straight-line basis to provide even charges to operations over the lives of the leases.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Sources of Revenue and Major Contributors

The Alliance receives funding from federal, state and municipal sources. A portion of the funding is based upon the average daily attendance (“ADA”) of the schools. The Alliance also receives funding from private donors and foundations committed to creating high-performance, small, college-ready middle schools and high schools in Los Angeles.

State Apportionment, Other State and Local Revenue

The Alliance Schools’ main revenue is received from a combination of local property taxes, state apportionments and other local sources. The Base Revenue Limit is the amount of the general purpose tax revenue, per ADA, that the Alliance is entitled to receive by law. This amount is multiplied by the second-period ADA to derive the Alliance’s total entitlement.

Los Angeles County (the “County”) is responsible for assessing, collecting and apportioning property taxes. Taxes are leveled for each fiscal year on taxable real and personal property in the County. The Los Angeles County Auditor reports the amount of the Alliance’s allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue by the Alliance.

The California Department of Education reduces the Alliance’s entitlement by the Alliance’s local property tax revenue. The balance is paid from the State General Fund and is known as the State Apportionment.

Contributed Services

Contributed services are recognized by the Alliance if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. There were no recorded contributed services during the year ended June 30, 2012.

Allocation of General and Administrative Expenses

Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Certain expenses that are associated with the program or supporting service have been allocated among the program and supporting services benefited based on management’s estimate.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value of Financial Instruments

FASB ASC Topic No. 820, “Fair Value Measurement and Disclosures” (“ASC 820”), applies to all assets and liabilities that are recognized or disclosed at fair value on a recurring basis. ASC 820 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

In addition to defining fair value, ASC 820 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Alliance’s only financial asset or liability measured at fair value is cash and cash equivalents, which have been valued based on quoted prices utilizing market observing inputs for identical assets (Level 1).

The carrying amounts of grants, contributions and pledge receivables, related party receivables, public funding receivables, note receivable, deferred rent receivable, accounts payable and accrued expenses approximates their fair value due to the short-term maturity of these instruments. The carrying amount of notes receivable, capital lease obligations and long-term debt approximates their fair values, as these financial instruments accrue interest based on prevailing rates.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Concentrations of Risk

Cash and cash equivalents are placed with high-credit, quality financial institutions. Effective December 31, 2010 through December 31, 2012, the Federal Deposit Insurance Corporation (“FDIC”) announced that all non-interest-bearing transaction accounts are fully insured, regardless of the balance of the account and the ownership capacity of the funds. For funds held in other types of deposit accounts, the FDIC will insure up to \$250,000 under the FDIC’s general deposit insurance rules. The Alliance has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents. As of June 30, 2012, the Alliance had deposits in excess of federally insured limits totaling \$38,355,219.

One contributor accounted for approximately 15% of total donations and grants from individuals and foundations. Federal, state and municipal funding accounted for approximately 83% of total combined revenue. The Alliance routinely assesses the financial strength of its contributors and believes that its credit risk exposure is limited.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In October 2012, the FASB issued ASU No. 2012-05, “Not-for-Profit Entities (“NFP”): Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows” (“ASU 2012-05”), which requires an NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that, upon receipt, were directed without any NFP-imposed for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case, those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated securities should be classified as cash flows from investing activities by the NFP. ASU 2012-05 is effective prospectively for fiscal years, and interim periods within those years, beginning June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted.

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**NOTE 3 – GRANTS, CONTRIBUTIONS AND PLEDGES RECEIVABLE**

Grants, contributions and pledges receivable consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Amounts due		
In less than one year	\$ 1,324,967	\$ 640,000
In one to five years	<u>580,000</u>	<u>1,580,000</u>
Total gross grants, contributions and pledge receivables	1,904,967	2,220,000
Less present value discount*	<u>(22,926)</u>	<u>(39,844)</u>
	1,882,041	2,180,156
Less current portion	<u>(1,324,236)</u>	<u>(640,000)</u>
<b>Long-Term portion</b>	<b><u>\$ 557,805</u></b>	<b><u>\$ 1,540,156</u></b>

\*The effective interest rate used to calculate the present value at June 30, 2012 ranged from 0.77% to 1.84% and were based on the treasury bill rate at the inception of the promises to give.

**NOTE 4 – PUBLIC FUNDING RECEIVABLES**

Public funding receivables consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Federal revenue	\$ 1,455,070	\$ 3,003,762
State apportionment and other state revenue	18,196,455	12,867,800
Other revenues	<u>41,564</u>	<u>132,727</u>
	<b><u>\$ 19,693,089</u></b>	<b><u>\$ 16,004,289</u></b>

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**NOTE 5 – ASSETS LIMITED AS TO USE**

Assets limited to use consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Facilities maintenance reserve funds held by trustees under the provision of various promissory notes and of various bond indenture agreements to secure payments on facilities maintenance for properties	\$ 1,067,763	\$ -
Sinking funds and bond reserve held by trustees under the provision of various promissory notes and of various bond indenture agreements to secure payments of principal and interest in the case of default	4,838,218	-
Investments held by trustees under the provision of bond indenture agreements to secure current payments of principal and interest on various School Facility Revenue Bonds (see Note 9)	1,789,998	1,962,429
Funds held by trustees under the provision of various promissory notes and of bond indenture agreement to secure construction draws and interest payment during construction period	13,951,350	1,034,626
Funds due to beneficiaries for pending disbursements of scholarships designated for specific students	9,050	22,677
Funds due to operation subsidy held by a trustee under the provision of various promissory notes	965,602	-
Advances from conditional revenue related to Prop 1D that are deferred until service is provided or expense incurred	<u>8,224,172</u>	<u>-</u>
	30,846,153	3,019,732
Less current portion	<u>(24,949,137)</u>	<u>(339,102)</u>
<b>Long term portion</b>	<b><u>\$ 5,897,016</u></b>	<b><u>\$ 2,680,630</u></b>

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**NOTES 6 – NOTES RECEIVABLE**

Notes receivable consisted of the following at June 30:

	2012	2011
<p>A promissory note from Alliance Broadway Investment Fund LLC, an unrelated third party. The note bears interest at a rate of 5.81% per annum and is payable in monthly interest-only payments. The note matures on December 1, 2018, at which time all unpaid principal and interest becomes due. The note is secured by all membership interests in Alliance Broadway Investment Fund LLC.</p>	\$ 15,012,675	\$ -
<p>A promissory note from Alliance Broadway Investment Fund LLC, an unrelated third party. The note bears interest at a rate of 1% per annum and is payable in monthly interest-only payments until January 1, 2019. Thereafter, monthly principal and interest payments become due. The note matures on December 1, 2051, at which time all unpaid principal and interest becomes due. The note is secured by all membership interests in Alliance Broadway Investment Fund LLC.</p>	650,000	-
<p>A promissory note from Alliance Broadway Investment Fund LLC, an unrelated third party. The note bears interest at a rate of 1% per annum and is payable in monthly interest-only payments until January 1, 2019. Thereafter, monthly principal and interest payments become due. The note matures on December 1, 2051, at which time all unpaid principal and interest becomes due. The note is secured by real property and all membership interests in Alliance Broadway Investment Fund LLC.</p>	734,320	-
	<b>\$ 16,386,995</b>	<b>\$ -</b>

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**NOTE 7 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30:

	2012	2011
Land	\$ 30,726,227	\$ 16,695,215
Buildings and building improvements	83,640,730	70,085,648
Construction in progress	10,327,211	2,701,370
Furniture and equipment	7,402,317	4,460,262
Software	759,122	335,321
	132,855,607	94,277,816
Less accumulated depreciation and amortization	(8,847,196)	(5,238,982)
<b>Total</b>	<b>\$124,008,411</b>	<b>\$ 89,038,834</b>

Construction in progress primarily relates to costs incurred for the building of a school facility and includes capitalized interest of \$900,893 as of June 30, 2012.

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 were \$3,653,629 and \$2,389,232, respectively.

As discussed in Note 15 below, the Alliance has built a school facility on land that is leased from the Trustees of the California State University (the "Trustees"). This lease expires on June 30, 2048, at which point the facility will revert to the Trustees. The carrying value of the facility included in property and equipment at June 30 was as follows:

	2012	2011
Buildings and building improvements	\$ 12,730,483	\$ 12,730,483
Less accumulated depreciation	(1,166,961)	(848,699)
<b>Total</b>	<b>\$ 11,563,522</b>	<b>\$ 11,881,784</b>

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**NOTE 8 – LINE OF CREDIT**

The Alliance has a revolving line of credit with a bank that allows for borrowings of up to \$5,000,000. At the election of Alliance, advances can be made by either i) an Alternate Base Rate Advance with an interest rate equal to the greatest of (a) the Prime Rate in effect on date of advance or (b) the Federal Funds Rate in effect on date of advance plus ½ of 1% of (c) the Applicable Floating Rate on the date of advance or ii) a LIBOR Advance with an interest rate equal to the Bank’s LIBOR Rate plus 2%. The line of credit requires monthly interest payments on outstanding balances, with the total outstanding principal and interest due on January 31, 2013. The line is secured by all personal property of the Alliance. As of June 30, 2012, no amounts remained outstanding.

**NOTE 9 – CAPITAL LEASE OBLIGATIONS**

The Alliance leases equipment under agreements that have been classified as capital leases. The future minimum lease payments required under the capital leases and the present values of net minimum lease payments at June 30, 2012 are as follows:

Years Ending <u>June 30,</u>	
2013	\$ 31,944
2014	31,944
2015	<u>15,972</u>
Total minimum lease payments	79,860
Less amount representing interest	<u>(7,148)</u>
Present value of future minimum lease payments	72,712
Less current portion	<u>(27,487)</u>
	<b><u>\$ 45,225</u></b>

The following is an analysis of the leased equipment under capital leases as of June 30, 2012, which is included in property and equipment:

Buildings and building improvements	\$ 134,000
Less accumulated depreciation and amortization	<u>(67,000)</u>
	<b><u>\$ 67,000</u></b>

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**NOTE 10 – LONG-TERM DEBT**

Long-term debt consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
A promissory note to Los Angeles Charter Schools New Market CDE, LLC, bearing interest at a rate of 5.91% per annum, with principal and interest payments due monthly. The note matures March 20, 2014 and is secured by a trust deed on the 2023 S. Union Avenue property.	\$ 7,002,324	\$ 7,184,368
A promissory note to Low Income Investment Fund, bearing interest at a rate of 6.50% per annum with principal and interest payments due monthly. The note matures on May 1, 2014 and is subordinated to the Los Angeles Charter Schools Market CDE, LLC note as noted above. The note is secured by a trust deed on the 2023 S. Union Avenue property.	2,516,672	2,571,916
A promissory note to Los Angeles Charter Schools New Market CDE, LLC, bearing interest at a rate equal to LIBOR plus 2.25% per annum (3.69% at June 30, 2012) with principal and interest payments due monthly. The note matures in February 2016 and is secured by a trust deed on the 5151 State University Drive property.	5,483,697	5,645,915
A promissory note to Low Income Investment Fund, bearing interest at a rate of 7% per annum with principal and interest payments due monthly. The note matures on March 1, 2016 and is secured by a trust deed on the 5151 State University Drive property.	\$ 2,266,960	\$ 2,310,169

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**NOTE 10 – LONG-TERM DEBT (Continued)**

	2012	2011
<i>Continued from previous page</i>		
A promissory note to NCB Capital Impact, bearing interest at 1.58% to 7.25% per annum with principal and interest payments due monthly. The note matured on June 1, 2016 and was secured by a trust deed on the 2621 W. 54 <sup>th</sup> Street property. In August 2011, this note was paid in full.	\$	- \$ 14,210,185
California Statewide Communities Development Authority Insured Educational Facilities Revenue Bonds, 2007 Series A. Term bonds of \$4,940,000 mature on July 1, 2030, with an interest rate of 5.15% per annum; term bonds of \$10,225,000 mature July 1, 2042, with an interest rate of 5.25% per annum and is secured by a trust deed on the 2071 Saturn LLC property.	15,165,000	15,165,000
California Statewide Communities Development Authority Insured Educational Facilities Revenue Bonds, 2007 Series B. Term bonds of \$585,000 mature on July 1, 2017, with an interest rate of 8% per annum with mandatory sinking fund payments due annually.	540,000	565,000
A promissory note to Impact V CDE 2 LLC, bearing interest at a rate of 6.229% per annum with interest payments due monthly. The note matured on November 19, 2015 and was secured by a trust deed on the 11410 Avalon Boulevard property. In August 2011, this note was paid in full.	\$	- \$ 4,298,708

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**NOTE 10 – LONG-TERM DEBT (Continued)**

	2012	2011
<i>Continued from previous page</i>		
A promissory note to Impact V CDE 2 LLC, bearing interest at a rate of 6.229% per annum with interest payments due monthly. The note matured on November 19, 2038 and was secured by a trust deed on the 11410 Avalon Boulevard property. In August 2011, this note was paid in full.	\$	- \$ 1,549,988
Various loans payable to the California Department of Education, bearing interest at a rate of 0.53% per annum with principal and interest payments due monthly, commencing the first fiscal year following the fiscal year the funds are received. The total outstanding principal and interest is due in full in August 2015.	540,000	720,000
A promissory note to PCSD 97 <sup>th</sup> & Main LLC, bearing no interest prior to the maturity date on December 28, 2012. Interest of \$36,205 was imputed on the note and recorded as a discount against the note at June 30, 2012. After the maturity date, all outstanding amounts shall bear interest at a rate of 5.5% per annum over the 7 year International Swaps and Derivatives Association mid-market par swap rate. The note is secured by the membership interests and any investment property of 9719 Main Street Charter Facilities LLC.	\$ 463,312	\$ 439,175

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**NOTE 10 – LONG-TERM DEBT (Continued)**

	2012	2011
<i>Continued from previous page</i>		
<p>A promissory note to PCSD 97<sup>th</sup> &amp; Main LLC, bearing no interest prior to the maturity date on December 28, 2012. Interest of \$28,057 was imputed on the note and recorded as a discount against the note at June 30, 2012. After the maturity date, all outstanding amounts shall bear interest at a rate of 5.5% per annum over the 7 year International Swaps and Derivatives Association mid-market par swap rate. The note is secured by the membership interests and any investment property of 10101 Broadway Charter Facilities LLC.</p>	\$ 342,256	\$ 323,551
<p>Promissory notes to NCB Capital Impact, bearing interest at 5.184% per annum with interest only payments due monthly. Term notes of \$4,173,443 mature on July 20, 2018, and term notes of \$1,149,242 mature on July 20, 2041. The notes are secured by a trust deed on the 9719 Main Street Charter Facilities LLC property.</p>	5,322,685	5,322,685
<p>Promissory notes to NCB Capital Impact, bearing interest at 5.153% per annum with interest only payments due monthly. Term notes of \$4,527,954 mature on July 20, 2018, and term notes of \$1,246,863 mature on July 20, 2041. The notes are secured by a trust deed on the 10101 Broadway Charter Facilities LLC property.</p>	5,774,817	5,774,817
<p>Promissory notes to NCB Capital Impact, bearing interest at 5.153% per annum with interest only payments due monthly. Term notes of \$6,315,140 mature on July 20, 2018, and term notes of \$1,726,247 mature on July 20, 2041. The notes are secured by a trust deed on the 10704 Wilmington LLC property.</p>	\$ 8,041,387	\$ 8,041,387

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**NOTE 10 – LONG-TERM DEBT (Continued)**

	2012	2011
<i>Continued from previous page</i>		
Various loans payable to the El Dorado County Office of Education, bearing interest at a rate of 1.44% per annum. Principal and interest payments were due monthly. The loans matured in August 2011 and were paid in full at that time.	\$	- \$ 221,833
California Statewide Communities Development Authority School Facility Revenue Bonds, Series 2011. Term bonds of \$2,750,000 mature on July 1, 2022, with an interest rate of 5.875% per annum; term bonds of \$4,125,000 mature July 1, 2031, with an interest rate of 6.75% per annum; term bonds of \$15,690,000 mature on July 1, 2046, with an interest rate of 7% per annum less an original discount of \$498,000. The notes are secured by a trust deed on the 11410 Avalon LLC and 54 <sup>th</sup> Street Lions LLC property.	22,070,410	-
Various loans payable to LIIF sub-CDE, LISC Sub-CDE and Genesis Sub-CDE, bearing interest at a rate of 5.15% per annum with principal and interest payments due monthly, commencing the first day of December 2011. The total outstanding principal and interest is due in full in November 2018. The notes are secured by a trust deed on the 1918 Broadway Charter Facilities LLC property.	15,012,675	-
Various loans payable to LIIF sub-CDE, LISC Sub-CDE and Genesis Sub-CDE, bearing interest at a rate of 3.80% per annum with principal and interest payments due monthly, commencing the first day of December 2011. The total outstanding principal and interest is due in full in November 2051. The notes are secured by a trust deed on the 1918 Broadway Charter Facilities LLC property.	\$ 6,073,091	\$ -

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**NOTE 10 – LONG-TERM DEBT (Continued)**

	2012	2011
<i>Continued from previous page</i>		
<p>Various loans payable to GLA Sub-CDE XI, LLC, New Markets Investment 65, LLC and LIIF Sub-CDE XV, LLC, bearing interest at a rate of 7% to 9% per annum with interest payments due quarterly, commencing the first day of November 2011. The note matures on September 15, 2030, at which time all unpaid principal and interest becomes due. The notes are secured by a trust deed on the 1918 Broadway Charter Financing LLC property.</p>	\$ 15,012,675	\$ -
<p>Various loans payable to Exed Facilities III, Impact V CDE 2 and Impact V CDE 4, bearing interest at a rate of 7.25% per annum with interest payments due monthly, commencing the first day of September 2011 until June 2016, at which point, principal and interest payments become due. The loans mature in June 2039 and all outstanding principal and interest is due in full at that time. The notes are secured by a trust deed on the 6900 8<sup>th</sup> Avenue Charter Facilities LLC and 70<sup>th</sup> Street Charter Facilities LLC property.</p>	10,492,186	-
<p>Various loans payable to Exed Facilities III, Impact V CDE 2 and Impact V CDE 4, bearing interest at a rate of 1.75% per annum with interest payments due monthly, commencing the first day of September 2011 until June 2016, at which point, principal and interest payments become due. The loans mature in June 2039, and all outstanding principal and interest is due in full at that time. The notes are secured by a trust deed on the 6900 8<sup>th</sup> Avenue Charter Facilities LLC and 70<sup>th</sup> Street Charter Facilities LLC property.</p>	\$ 2,769,038	\$ -

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**NOTE 10 – LONG-TERM DEBT (Continued)**

	2012	2011
<i>Continued from previous page</i>		
<p>Various loans payable to Exed Facilities III, Impact V CDE 2 and Impact V CDE 4, bearing interest at a rate of 3.01% per annum with interest payments due monthly, commencing the first day of September 2011 until June 2016, at which point, principal and interest payments become due. The loans mature in June 2039, and all outstanding principal and interest is due in full at that time. The notes are secured by a trust deed on the 6900 8<sup>th</sup> Avenue Charter Facilities LLC and 70<sup>th</sup> Street Charter Facilities LLC property.</p>	\$ 900,547	\$ -
<p>Various loans payable to Exed Facilities III, Impact V CDE 2 and Impact V CDE 4, bearing interest at a rate of 6.229% per annum with interest payments due monthly, commencing the first day of September 2011 until June 2016, at which point, principal and interest payments become due. The loans mature in June 2039, and all outstanding principal and interest is due in full at that time. The notes are secured by a trust deed on the 6900 8<sup>th</sup> Avenue Charter Facilities LLC and 70<sup>th</sup> Street Charter Facilities LLC property.</p>	5,848,696	-
<p>Subordinated loan payable to Charter School Financing Partnership, bearing 0% interest, unless there is default, in which the loan will bear interest of 3% per annum. Principal will be paid monthly, commencing on the first business day of September 2012, with the final installment due in February 2022. The notes are secured by a trust deed on the 4610 S. Main property.</p>	\$ 760,950	\$ -

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**NOTE 10 – LONG-TERM DEBT (Continued)**

	2012	2011
<i>Continued from previous page</i>		
California Statewide Communities Development Authority School Facility Revenue Bonds, Series 2012. Term bonds of \$475,000 mature on July 1, 2022, with an interest rate of 5.125% per annum; term bonds of \$1,820,000 mature July 1, 2032, with an interest rate of 6.100% per annum; term bonds of \$6,160,000 mature on July 1, 2047, with an interest rate of 6.375% per annum. The notes are secured by a trust deed on the 4610 S. Main property.	\$ 8,455,000	\$ -
	140,854,378	74,344,697
Less current portion	(1,861,431)	(915,473)
	<b><u>\$138,992,947</u></b>	<b><u>\$ 73,429,224</u></b>

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**NOTE 10 – LONG-TERM DEBT (Continued)**

In conjunction with certain of the long-term debt agreements, the Alliance has agreed, among other things, to (1) maintain certain debt coverage ratios, (2) maintain certain insurance coverage limits and (3) limit the amount of liens, except those in favor of the lender. At June 30, 2012, the Alliance was in compliance with all of these covenant requirements.

During May 2007, 2071 HP Saturn LLC issued the 2007 Revenue Bonds with a total borrowing of \$15,750,000. The purpose of issuing the 2007 Revenue Bonds was to finance the acquisition of educational facilities in Huntington Park, California, which is leased to Alliance Huntington Park College-Ready Academy High School and an unrelated third party. During the year ended June 30, 2012, lease payments totaling \$1,149,448 were collected.

2071 HP Saturn LLC is required to establish funds with the trustee to pay the principal and interest portion of the 2007 Revenue Bonds. Deposits with the trustee to satisfy mandatory requirements on the 2007 term bonds will be made in annual installments ranging from \$10,000 to \$2,145,000 during the period from July 1, 2008 to July 1, 2042. These balances are classified as “assets limited as to use” on the accompanying statement of financial position and amounted to \$519,323 as of June 30, 2012.

The HP Saturn LLC is also required to set up reserve accounts for bond reserve and facilities maintenance reserve. These balances are classified as “assets limited as to use” on the accompanying statement of financial position and amounted to \$1,100,630 and \$390,555, respectively, as of June 30, 2012.

During August 2011, 54<sup>th</sup> Street Lions LLC and 11410 Avalon LLC issued the 2011 Revenue Bonds with a total borrowing of \$22,565,000. The purpose of issuing the 2011 Revenue Bonds was to re-finance the corresponding LLCs’ debt. During the year ended June 30, 2012, lease payments totaling \$1,869,751 were collected.

54<sup>th</sup> Street Lions LLC and 11410 Avalon LLC are required to establish funds with the trustee to pay the principal and interest portion of the 2011 Revenue Bonds. Deposits with the trustee to satisfy mandatory requirements on the 2011 term bonds will be made in annual installments ranging from \$155,000 to \$1,728,050 during the period from September 1, 2011 to July 1, 2046. These balances are classified as “assets limited as to use” on the accompanying statement of financial position and amounted to \$1,068,250 as of June 30, 2012.

The 54<sup>th</sup> Street Lions LLC and 11410 Avalon LLC are also required to set up a bond reserve and facilities maintenance reserve account for projects. These balances are classified as “assets limited as to use” on the accompanying statement of financial position and amounted to \$1,729,631 and \$45,833, respectively, as of June 30, 2012.

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**NOTE 10 – LONG-TERM DEBT (Continued)**

During February 2012, 4610 S. Main Street Charter Facilities LLC issued the 2012 Revenue Bonds with a total borrowing of \$8,455,000. The purpose of issuing the 2012 Revenue Bonds was to finance the acquisition of educational facilities in Los Angeles, California, which is leased to Alliance College-Ready Academy High School No. 5. During the year ended June 30, 2012, lease payments totaling \$232,395 were collected.

4610 S. Main Street Charter Facilities LLC is required to establish funds with the trustee to pay the principal and interest portion of the 2012 Revenue Bonds. Deposits with the trustee to satisfy mandatory sinking fund requirements on the 2012 term bonds will be made in annual installments ranging from \$35,000 to \$615,000 during the period from July 25, 2012 to June 25, 2047. These balances are classified as “assets limited as to use” on the accompanying statement of financial position and amounted to \$202,425 as of June 30, 2012.

The Alliance is also required to set up reserve accounts for bond reserve and facilities maintenance reserve accounts for construction projects. These balances are classified as “assets limited as to use” on the accompanying statement of financial position and amounted to \$600,192 and \$13,333, respectively, as of June 30, 2012.

During November 2011, 1918 Broadway Charter Financing LLC issued 2011 Revenue Bonds with total borrowings of \$15,012,675. The purpose of issuing the 2011 Revenue Bonds was to make an equity investment into an investment fund with three community development entities (“CDE’s”), fund a portion of the deposit to the Required Reserved Account of the Revenue Fund and pay for the cost issuance of the Bonds. The required bond reserve account of the revenue fund amounted to \$258,288 as of June 30, 2012 and is classified as “assets limited as to use” on the accompanying statement of financial position.

Aggregate future maturities of long-term debt and sinking fund requirements for each of the next five years and thereafter are as follows:

Years Ending <u>June 30,</u>	
2013	\$ 1,861,431
2014	9,895,132
2015	788,192
2016	7,491,461
2017	694,302
Thereafter	<u>120,123,860</u>
<b>Total</b>	<b><u>\$140,854,378</u></b>

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**NOTE 11 – ASSET RETIREMENT OBLIGATION**

The Alliance recognizes a liability at discounted fair value for the future retirement of tangible long-lived assets and associated assets retirement cost associated with an operating lease (see Note 15). The fair value of the liability is capitalized as part of the cost of related asset and amortized to expense over its useful life. The liability accretes until the date of expected settlement of the retirement obligations. The related accretion expense is recognized in the combined statement of activities. Differences between the actual costs incurred and the fair value of the liability recorded are recognized in income in the period the actual costs are incurred.

There are no legally restricted assets for the settlement of asset retirement obligations. A reconciliation of the Alliance's asset retirement obligations from the periods presented are as follows:

Balance at June 30, 2011	\$ -
Incurred during the period	200,000
Accretion expense	<u>55,288</u>
 Balance at June 30, 2012	 <b><u>\$ 255,288</u></b>

**NOTE 12 – RELATED PARTY TRANSACTIONS**

Related party receivable includes unrestricted promises to give from board members. The funds are promised to be paid as follows:

In less than one year	\$ 1,155,467
In one to five years	<u>2,450,000</u>
Total receivable	3,605,467
Less present value discount*	<u>(82,080)</u>
	3,523,387
Less current portion	<u>(1,155,467)</u>
 <b>Long-term portion</b>	 <b><u>\$ 2,367,920</u></b>

\*The effective interest rate used to calculate the present value at June 30, 2012 ranged from 0.50% to 1.51% and were based on the Treasury Bill Rate at the inception of the promises to give.

Total contributions made by individual members of the board during the year ended June 30, 2012 were \$3,600,000. During 2012, a board member loaned the Alliance \$300,000. The related party payable is non-interest bearing and due on demand.

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**NOTE 13 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2012 were restricted by donors for specific programs of the Alliance. The programs are as follows:

	Available June 30, 2011	New Revenues	Expenditures/ Releases from Restrictions	Available June 30, 2012
Graduate scholarships	\$ 580,061	\$ 93,701	\$ (248,871)	\$ 424,891
Technology	1,092,123	2,047,216	(313,302)	2,826,037
School programs	338,293	114,289	(294,640)	157,942
Operations, other than facilities	1,172,224	531,166	(556,544)	1,146,846
Professional development	313,993	2,178,584	(104,133)	2,388,444
Restriction due to time	<u>871,738</u>	<u>1,446,083</u>	<u>(300,000)</u>	<u>2,017,821</u>
	<b><u>\$ 4,368,432</u></b>	<b><u>\$ 6,411,039</u></b>	<b><u>\$(1,817,490)</u></b>	<b><u>\$ 8,961,981</u></b>

**NOTE 14 – RENTAL INCOME UNDER OPERATING LEASES**

An unrelated party leases a portion of the property located at 2021 Saturn Avenue, Huntington Park, California, under a noncancelable operating lease. The lease requires initial monthly payments of \$24,600 plus supplemental rent equal to 20% of all facility reimbursement from the federal and state governments received by the lessee. The lease expires on June 30, 2042 and has two options to extend the terms for ten years each. The future minimum rentals to be received under this noncancelable operating lease at June 30, 2012 were as follows:

Years Ending <u>June 30,</u>	
2013	\$ 375,385
2014	384,769
2015	394,389
2016	404,248
2017	414,354
Thereafter	<u>12,122,023</u>
	<b><u>\$ 14,095,168</u></b>

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**NOTE 14 – RENTAL INCOME UNDER OPERATING LEASES (Continued)**

The total carrying value of the Alliance’s investment in property under operating leases included in property and equipment at June 30 was as follows:

	2012	2011
Land	\$ 7,000,000	\$ 7,000,000
Buildings and building improvements	6,769,377	6,769,377
Less accumulated depreciation	(684,184)	(543,189)
	<b>\$ 13,085,193</b>	<b>\$ 13,226,188</b>

**NOTE 15 – COMMITMENTS AND CONTINGENCIES**

Ground Leases

During the year ended June 30, 2007, the Alliance entered into a ground lease agreement with the Trustees of the California State University (the “Trustees”) for the use of a lot on which the Alliance built a school facility and leased to one of the Alliance schools. The term of the lease is from June 15, 2007 to June 30, 2048. There is no lease payment required under this lease; instead, at the end of the lease term or upon termination, all right, title and interest in and to all improvements and equipment constructed or installed shall be transferred to the Trustees.

In addition, the Alliance is obligated to establish an Extraordinary Repair Fund (the “Fund”) in an interest-bearing state trust account for the purpose of replacement or renewal of the assets constructed on the site or for the cost of demolition. Annual installment payments into the Fund of \$25,000 and \$75,000 start in fiscal years 2017 and 2034, respectively, and will continue until the end of the lease term, or until the Fund reaches \$1,500,000. If the balance in the Fund exceeds the total costs of renewal or demolition upon the termination of the lease, the excess balance is to be refunded to the Alliance. As of June 30, 2012, the Alliance has recorded an asset retirement obligation for \$255,288 relating to this lease (see Note 11).

During the year ended June 30, 2012, the Alliance entered into another ground lease agreement with a third party for the use of a lot on which the Alliance built a school facility. Lease payments required under the lease are payable at a rate ranging from \$12,000 to \$13,200 per month through June 30, 2014. Subsequent to June 30, 2014, lease payments will be the greater of i) the fixed net rent of the previous five year period increased by 10% and ii) the fixed net rent of the previous five year period increased by a CPI adjustment factor. The lease expires on August 31, 2049. Rent expense related to this lease for the year ended June 30, 2012 totaled \$144,000 and is included within “rent and facilities” on the accompanying combined statement of functional expenses.

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**NOTE 15 – COMMITMENTS AND CONTINGENCIES (Continued)**

Facility Leases

The Alliance is obligated under various noncancelable operating lease agreements for office and for school facilities. The leases require monthly payments ranging from approximately \$9,000 to \$58,795 and expire through January 14, 2015. Several of the leases have options to extend the terms for one year to five years, depending on the agreement. The future minimum lease payments required under these noncancelable facility leases at June 30, 2012 are as follows:

Years Ending <u>June 30,</u>	
2013	\$ 825,918
2014	622,278
2015	<u>80,990</u>
<b>Total</b>	<b><u>\$ 1,529,186</u></b>

Rent expense related to these leases for year ended June 30, 2012 was \$1,777,601 and is included within "rent and facilities" on the accompanying combined statement of functional expenses.

Equipment Lease

At June 30, 2012, the Alliance was obligated under various noncancelable operating lease agreements for office equipment. The leases require monthly payments ranging from \$39 to \$787 and expire through August 2015. The future minimum lease payments required under these noncancelable equipment leases at June 30, 2012 are as follows:

Years Ending <u>June 30,</u>	
2013	\$ 188,055
2014	135,085
2015	75,714
2016	<u>11,744</u>
	<b><u>\$ 410,598</u></b>

Rent expense related to these leases for year ended June 30, 2012 was \$209,954 and is included within "rent and facilities" on the accompanying combined statement of functional expenses.

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**NOTE 15 – COMMITMENTS AND CONTINGENCIES (Continued)**

Construction

The Alliance has entered into two construction contracts for approximately \$6,529,000 and \$12,139,000 for a total commitment of \$18,668,000. As of June 30, 2012, the total construction costs incurred amounted to \$6,429,739 and have been included in construction in progress (see note 7). The remaining \$12,238,261 is expected to be completed in fiscal year 2013.

Legal Proceedings

The Alliance is, from time to time, the subject of litigation, claims and assessments arising out of matters occurring in its normal business operations. The Alliance has insurance coverage to provide protection against certain contingencies. In the opinion of management, resolution of these matters will not have a material adverse effect on the Alliance's financial position or results of operations.

**NOTE 16 – EMPLOYEE RETIREMENT PLANS**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California (the "State"). Academic employees are members of the State Teachers' Retirement System, and classified employees are members of the Public Employees' Retirement System.

State Teachers' Retirement System ("STRS")

*Plan Description*

The Alliance-affiliated schools contribute to the State Teachers' Retirement System ("STRS"), a cost-sharing, multiple-employer, public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law (Part 13 of the California Education Code, Sec. 22000 et seq.). STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

*Funding Policy*

Active plan members are required to contribute 8.00% of their salaries, and the Alliance-affiliated schools are required to contribute at an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011 – 2012 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

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**NOTE 16 – EMPLOYEE RETIREMENT PLANS (Continued)**

The Alliance-affiliated schools' contributions to STRS for each of the last three fiscal years were as follows:

<u>Years Ended June 30,</u>	<u>Required Contribution</u>	<u>Employer Contribution</u>	<u>Percent Contributed</u>
2010	\$ 1,453,626	8.25%	100%
2011	\$ 1,797,893	8.25%	100%
2012	\$ 2,171,527	8.25%	100%

Public Employees' Retirement System ("CalPERS")

*Plan Description*

The Alliance-affiliated schools contribute to the School Employer Pool under the California Public Employees' Retirement System ("CalPERS"), a cost-sharing, multiple-employer, public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

*Funding Policy*

Active plan members are required to contribute 7.0% of their salaries; currently, the Alliance-affiliated schools contribute the employees' portion for California School Employees Association and confidential staff members. The Alliance-affiliated schools are required to contribute at an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The Alliance-affiliated schools' contribution rate to CalPERS for fiscal year 2011 – 2012 was 10.923%.

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**NOTE 16 – EMPLOYEE RETIREMENT PLANS (Continued)**

Public Employees’ Retirement System (“CalPERS”) (Continued)

The Alliance-affiliated schools’ contributions to CalPERS for each of the last three fiscal years were as follows:

<u>Years Ended June 30,</u>	<u>Required Contribution</u>	<u>Employer Contribution</u>	<u>Percent Contributed</u>
2010	\$ 267,014	9.709%	100%
2011	\$ 349,597	10.707%	100%
2012	\$ 398,838	10.923%	100%

The State of California may make additional direct payments for retirement benefits to STRS or CalPERS on behalf of all participating employers in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements.

Defined Contribution Plan

Eligible employees of the Alliance can participate in a 403(b) plan sponsored by the Alliance. Participants can elect to contribute up to 5% of their pretax annual compensation, as defined in the plan, subject to Section 403(b) of the Internal Revenue Code contribution limitations. For corporate participants, the Alliance makes a matching contribution of 5% of the participant’s eligible salary. The Alliance’s total contribution for the year ended June 30, 2012 was \$180,943.

**NOTE 17 – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through December 12, 2012, which is the date the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
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ASSETS	Alliance for College-Ready Public Schools	2023 Union LLC	Alliance Schools R.E. Holdings LLC	2071 HP Saturn LLC	5151 Titan LLC	10704 Wilmington LLC	9719 Main Street Charter Facilities LLC
	<i>(continued on the next page)</i>						
<b>Current assets</b>							
Cash and cash equivalents	\$ 3,858,978	\$ 372,867	\$ -	\$ 253,521	\$ 383,201	\$ 87,392	\$ 78,551
Grants, contributions and pledges receivable, current portion	1,316,767	-	-	-	-	-	-
Related party receivable, current portion	1,150,000	-	-	-	-	-	-
Public funding receivables	243,542	-	-	-	-	-	-
Due from related parties	1,831,668	509,641	-	43,547	140,739	110,154	36,807
Related party note receivable, current portion	3,055,000	-	-	-	-	-	-
Assets limited as to use, current portion	9,175,295	-	-	519,323	-	-	-
Prepaid expenses	210,611	5,407	-	58,903	-	-	-
<b>Total current assets</b>	<b>20,841,861</b>	<b>887,915</b>	<b>-</b>	<b>875,294</b>	<b>523,940</b>	<b>197,546</b>	<b>115,358</b>
Grants, contributions and pledges receivable, net of current portion	557,805	-	-	-	-	-	-
Related party receivable, net of current portion	2,367,920	-	-	-	-	-	-
Related party note receivable	1,000,000	-	-	-	-	-	-
Note receivable	-	-	-	-	-	-	-
Deferred rent receivable	-	-	-	1,294,725	669,944	849,129	20,415
Assets limited as to use, net of current portion	855,726	363,366	-	1,491,185	69,732	-	-
Other long-term assets	22,910	-	-	-	-	-	-
Deferred financing costs	-	-	-	706,989	-	-	-
Investment in affiliates	16,554,602	-	-	-	-	-	-
Property and equipment, net	4,313,774	12,564,622	1,811,597	13,085,193	11,739,310	8,050,798	5,646,354
<b>Total assets</b>	<b>\$ 46,514,598</b>	<b>\$ 13,815,903</b>	<b>\$ 1,811,597</b>	<b>\$ 17,453,386</b>	<b>\$ 13,002,926</b>	<b>\$ 9,097,473</b>	<b>\$ 5,782,127</b>
	<b>LIABILITIES AND NET ASSETS</b>						
<b>Liabilities</b>							
Accounts payable and accrued expenses	\$ 559,918	\$ 17,974	\$ -	\$ 421,642	\$ -	\$ 34,531	\$ 23,140
Due to related parties	-	282	-	-	-	19,038	12,656
Deferred revenue	8,520,880	-	-	-	-	-	-
Related party note payable	4,475,000	-	-	-	-	-	-
Capital lease obligations, current portion	27,487	-	-	-	-	-	-
Long-term debt, current portion	805,567	252,042	-	55,000	214,639	-	-
<b>Total current liabilities</b>	<b>14,388,852</b>	<b>270,298</b>	<b>-</b>	<b>476,642</b>	<b>214,639</b>	<b>53,569</b>	<b>35,796</b>
Capital lease obligations, net of current portion	45,225	-	-	-	-	-	-
Long-term debt, net of current portion	-	9,266,855	-	15,650,000	7,536,017	8,041,387	5,322,685
Liability for asset retirement obligation	-	-	-	-	255,288	-	-
Deferred rent liability	10,461	-	-	-	-	-	-
<b>Total liabilities</b>	<b>14,444,538</b>	<b>9,537,253</b>	<b>-</b>	<b>16,126,642</b>	<b>8,005,944</b>	<b>8,094,956</b>	<b>5,358,481</b>
<b>Commitments and contingencies</b>							
<b>Net assets (deficit)</b>							
Unrestricted	24,481,922	-	-	-	-	-	-
Members' equity	-	4,278,650	1,811,597	1,326,744	4,996,982	1,002,517	423,646
Temporarily restricted	7,568,138	-	-	-	-	-	-
<b>Total net assets (deficit)</b>	<b>32,070,060</b>	<b>4,278,650</b>	<b>1,811,597</b>	<b>1,326,744</b>	<b>4,996,982</b>	<b>1,002,517</b>	<b>423,646</b>
<b>Total liabilities and net assets</b>	<b>\$ 46,514,598</b>	<b>\$ 13,815,903</b>	<b>\$ 1,811,597</b>	<b>\$ 17,453,386</b>	<b>\$ 13,002,926</b>	<b>\$ 9,097,473</b>	<b>\$ 5,782,127</b>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
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ASSETS	10101 Broadway Charter Facilities LLC	70th Street Charter Facilities LLC	6900 8th Avenue Charter Facilities LLC	1918 Broadway Charter Financing LLC	Total	Eliminating Entries	Consolidated Alliance for College-Ready Public Schools
<i>(continued from the previous page)</i>							
<b>Current assets</b>							
Cash and cash equivalents	\$ 84,868	\$ 433,347	\$ 212,882	\$ -	\$ 5,765,607	\$ -	\$ 5,765,607
Grants, contributions and pledges receivable, current portion	-	-	-	-	1,316,767	-	1,316,767
Related party receivable, current portion	-	-	-	-	1,150,000	-	1,150,000
Public funding receivables	-	-	-	-	243,542	-	243,542
Due from related parties	39,783	172,500	157,485	-	3,042,324	(683,413)	2,358,911
Related party note receivable, current portion	-	-	-	-	3,055,000	-	3,055,000
Assets limited as to use, current portion	-	44	-	7,701	9,702,363	-	9,702,363
Prepaid expenses	-	26,606	23,784	73,813	399,124	-	399,124
<b>Total current assets</b>	<b>124,651</b>	<b>632,497</b>	<b>394,151</b>	<b>81,514</b>	<b>24,674,727</b>	<b>(683,413)</b>	<b>23,991,314</b>
Grants, contributions and pledges receivable, net of current portion	-	-	-	-	557,805	-	557,805
Related party receivable, net of current portion	-	-	-	-	2,367,920	-	2,367,920
Related party note receivable	-	-	-	-	1,000,000	-	1,000,000
Note receivable	-	-	-	16,386,995	16,386,995	-	16,386,995
Deferred rent receivable	79,309	-	-	-	2,913,522	-	2,913,522
Assets limited as to use, net of current portion	-	-	184,943	250,585	3,215,537	-	3,215,537
Other long-term assets	6,000	-	-	-	28,910	-	28,910
Deferred financing costs	-	-	-	386,621	1,093,610	-	1,093,610
Investment in affiliates	-	-	-	-	16,554,602	(16,554,602)	-
Property and equipment, net	6,055,815	10,617,232	9,166,571	-	83,051,266	-	83,051,266
<b>Total assets</b>	<b>\$ 6,265,775</b>	<b>\$ 11,249,729</b>	<b>\$ 9,745,665</b>	<b>\$ 17,105,715</b>	<b>\$ 151,844,894</b>	<b>\$ (17,238,015)</b>	<b>\$ 134,606,879</b>
<b>LIABILITIES AND NET ASSETS</b>							
<b>Liabilities</b>							
Accounts payable and accrued expenses	\$ 24,947	\$ 51,028	\$ 80,408	\$ 46,639	\$ 1,260,227	\$ -	\$ 1,260,227
Due to related parties	13,731	462,620	175,041	45	683,413	(683,413)	-
Deferred revenue	-	-	-	-	8,520,880	-	8,520,880
Related party note payable	-	-	-	-	4,475,000	-	4,475,000
Capital lease obligations, current portion	-	-	-	-	27,487	-	27,487
Long-term debt, current portion	-	45,758	-	-	1,373,006	-	1,373,006
<b>Total current liabilities</b>	<b>38,678</b>	<b>559,406</b>	<b>255,449</b>	<b>46,684</b>	<b>16,340,013</b>	<b>(683,413)</b>	<b>15,656,600</b>
Capital lease obligations, net of current portion	-	-	-	-	45,225	-	45,225
Long-term debt, net of current portion	5,774,817	10,500,887	9,463,822	15,012,675	86,569,245	-	86,569,245
Liability for asset retirement obligation	-	-	-	-	255,288	-	255,288
Deferred rent liability	-	-	-	-	10,461	-	10,461
<b>Total liabilities</b>	<b>5,813,495</b>	<b>11,060,293</b>	<b>9,719,271</b>	<b>15,059,359</b>	<b>103,220,232</b>	<b>(683,413)</b>	<b>102,536,819</b>
<b>Commitments and contingencies</b>							
<b>Net assets (deficit)</b>							
Unrestricted	-	-	-	-	24,481,922	-	24,481,922
Members' equity	452,280	189,436	26,394	2,046,356	16,554,602	(16,554,602)	-
Temporarily restricted	-	-	-	-	7,588,138	-	7,588,138
<b>Total net assets (deficit)</b>	<b>452,280</b>	<b>189,436</b>	<b>26,394</b>	<b>2,046,356</b>	<b>48,624,662</b>	<b>(16,554,602)</b>	<b>32,070,060</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,265,775</b>	<b>\$ 11,249,729</b>	<b>\$ 9,745,665</b>	<b>\$ 17,105,715</b>	<b>\$ 151,844,894</b>	<b>\$ (17,238,015)</b>	<b>\$ 134,606,879</b>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SUBSIDIARIES  
(A NONPROFIT ORGANIZATION)  
CONSOLIDATING STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2012**

	Alliance for College-Ready Public Schools	2023 Union LLC	Alliance Schools R.E. Holdings LLC	2071 HP Saturn LLC	5151 Titan LLC	10704 Wilmington LLC	9719 Main Street Charter Facilities LLC
<i>(continued on the next page)</i>							
<b>Revenue and support</b>							
Private grants and contributions	\$ 12,222,112	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Management fees	5,317,256	-	-	-	-	-	-
Federal revenue	2,215,258	-	-	-	-	-	-
State apportionment	-	-	-	-	-	-	-
Other state revenues	2,674,890	-	-	-	-	-	-
Local revenues	-	-	-	-	-	-	-
Rent income	-	1,371,860	-	1,149,448	988,042	575,570	455,294
Interest and other income	661,525	-	-	68,841	-	-	-
Investment gain in subsidiaries	525,789	-	-	-	-	-	-
<b>Total revenue and support</b>	<b>23,616,830</b>	<b>1,371,860</b>	<b>-</b>	<b>1,218,289</b>	<b>988,042</b>	<b>575,570</b>	<b>455,294</b>
<b>Functional expenses</b>							
Program services	7,831,694	791,048	-	919,285	670,420	550,231	354,780
Support services							
Management and general	7,445,709	180,020	71,571	134,671	95,740	86,705	62,432
Fundraising	443,458	-	-	-	-	-	-
<b>Total functional expenses</b>	<b>15,720,861</b>	<b>971,068</b>	<b>71,571</b>	<b>1,053,956</b>	<b>766,160</b>	<b>636,936</b>	<b>417,212</b>
<b>Change in net assets</b>	<b>7,895,969</b>	<b>400,792</b>	<b>(71,571)</b>	<b>164,333</b>	<b>221,882</b>	<b>(61,366)</b>	<b>38,082</b>
<b>Member contributions</b>	-	-	61	-	-	117,989	-
<b>Member distributions</b>	-	-	-	-	-	(19,038)	(151,875)
<b>Net assets (deficit), beginning of year</b>	<b>24,174,091</b>	<b>3,877,858</b>	<b>1,883,107</b>	<b>1,162,411</b>	<b>4,775,100</b>	<b>964,932</b>	<b>537,439</b>
<b>Net assets, end of year</b>	<b>\$ 32,070,060</b>	<b>\$ 4,278,650</b>	<b>\$ 1,811,597</b>	<b>\$ 1,326,744</b>	<b>\$ 4,996,982</b>	<b>\$ 1,002,517</b>	<b>\$ 423,646</b>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SUBSIDIARIES  
(A NONPROFIT ORGANIZATION)  
CONSOLIDATING STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2012**

	10101 Broadway Charter Facilities LLC	70th Street Charter Facilities LLC	6900 8th Avenue Charter Facilities LLC	1918 Broadway Charter Financing LLC	Total	Eliminating Entries	Consolidated Alliance for College-Ready Public Schools
<i>(continued from the previous page)</i>							
<b>Revenue and support</b>							
Private grants and contributions	\$ -	\$ -	\$ -	\$ -	\$ 12,222,112	\$ -	\$ 12,222,112
Management fees	-	-	-	-	5,317,256	-	5,317,256
Federal revenue	-	-	-	442,273	2,657,531	-	2,657,531
State apportionment	-	-	-	-	-	-	-
Other state revenues	-	-	-	-	2,674,890	-	2,674,890
Local revenues	-	-	-	-	-	-	-
Rent income	530,089	586,636	523,269	-	6,180,208	-	6,180,208
Interest and other income	-	3,389	247	570,808	1,304,810	-	1,304,810
Investment gain in subsidiaries	-	-	-	-	525,789	(525,789)	-
<b>Total revenue and support</b>	<u>530,089</u>	<u>590,025</u>	<u>523,516</u>	<u>1,013,081</u>	<u>30,882,596</u>	<u>(525,789)</u>	<u>30,356,807</u>
<b>Functional expenses</b>							
Program services	427,709	752,996	510,594	-	12,808,757	-	12,808,757
Support services							
Management and general	80,926	105,435	101,468	741,725	9,106,402	-	9,106,402
Fundraising	-	-	-	-	443,458	-	443,458
<b>Total functional expenses</b>	<u>508,635</u>	<u>858,431</u>	<u>612,062</u>	<u>741,725</u>	<u>22,358,617</u>	<u>-</u>	<u>22,358,617</u>
<b>Change in net assets</b>	21,454	(268,406)	(88,546)	271,356	8,523,979	(525,789)	7,998,190
<b>Member contributions</b>	-	866,550	115,000	1,775,000	2,874,600	(2,874,600)	-
<b>Member distributions</b>	(164,773)	(2,438,648)	-	-	(2,774,334)	2,774,334	-
<b>Net assets (deficit), beginning of year</b>	<u>595,599</u>	<u>2,029,940</u>	<u>(60)</u>	<u>-</u>	<u>40,000,417</u>	<u>(15,928,547)</u>	<u>24,071,870</u>
<b>Net assets, end of year</b>	<u>\$ 452,280</u>	<u>\$ 189,436</u>	<u>\$ 26,394</u>	<u>\$ 2,046,356</u>	<u>\$ 48,624,662</u>	<u>\$ (16,554,602)</u>	<u>\$ 32,070,060</u>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS FACILITIES CORPORATION  
AND SUBSIDIARIES  
(A NONPROFIT ORGANIZATION)  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
June 30, 2012**

ASSETS	Alliance for College-Ready Public Schools Facilities Corporation	54th Street Lions LLC	11410 Avalon LLC	1918 Broadway Charter Facilities LLC	4610 S. Main Street Charter Facilities LLC	Total	Eliminating Entries	Consolidated Alliance for College-Ready Public Schools Facilities Corporation
<b>Current assets</b>								
Cash and cash equivalents	\$ -	\$ 94,457	\$ 201,907	\$ 8,269	\$ 24,701	\$ 329,334	\$ -	\$ 329,334
Grants, contributions and pledges receivable, current portion	-	-	-	-	-	-	-	-
Related party receivable, current portion	-	-	-	-	-	-	-	-
Public funding receivables	-	-	-	-	-	-	-	-
Due from related parties	-	239,516	49,632	-	-	289,148	(1,008)	288,140
Related party note receivable, current portion	-	-	-	-	-	-	-	-
Assets limited as to use, current portion	-	748,643	319,606	9,334,449	4,820,585	15,223,283	-	15,223,283
Prepaid expenses	-	40,727	-	-	-	40,727	-	40,727
<b>Total current assets</b>	-	1,123,343	571,145	9,342,718	4,845,286	15,882,492	(1,008)	15,881,484
Grants, contributions and pledges receivable, net of current portion	-	-	-	-	-	-	-	-
Related party receivable, net of current portion	-	-	-	-	-	-	-	-
Related party note receivable	-	-	-	-	-	-	-	-
Note receivable	-	-	-	-	-	-	-	-
Assets limited as to use, net of current portion	-	1,242,825	532,639	292,491	613,524	2,681,479	-	2,681,479
Deferred rent receivable	-	-	-	-	12,666	12,666	-	12,666
Other long-term assets	-	300	-	120,963	-	121,263	-	121,263
Deferred financing costs	-	582,190	249,510	2,038,045	690,116	3,559,861	-	3,559,861
Investment in affiliates	5,381,532	-	-	-	-	5,381,532	(5,381,532)	-
Property and equipment, net	-	18,157,351	5,882,572	9,480,939	3,820,464	37,341,326	-	37,341,326
<b>Total assets</b>	<b>\$ 5,381,532</b>	<b>\$ 21,106,009</b>	<b>\$ 7,235,866</b>	<b>\$ 21,275,156</b>	<b>\$ 9,982,056</b>	<b>\$ 64,980,619</b>	<b>\$ (5,382,540)</b>	<b>\$ 59,598,079</b>
<b>LIABILITIES AND NET ASSETS</b>								
<b>Liabilities</b>								
Accounts payable and accrued expenses	\$ -	\$ 672,939	\$ 268,106	\$ 84,022	\$ 203,382	\$ 1,228,449	\$ -	\$ 1,228,449
Due to related parties	20	398,717	1,008	191,302	1,038	592,085	(1,008)	591,077
Deferred revenue	-	-	-	-	-	-	-	-
Related party note payable	-	-	-	-	-	-	-	-
Capital lease obligations, current portion	-	-	-	-	-	-	-	-
Long-term debt, current portion	-	140,000	60,000	-	108,425	308,425	-	308,425
<b>Total current liabilities</b>	20	1,211,656	329,114	275,324	312,845	2,128,959	(1,008)	2,127,951
Capital lease obligations, net of current portion	-	-	-	-	-	-	-	-
Long-term debt, net of current portion	-	15,308,787	6,561,623	21,085,766	9,107,525	52,063,701	-	52,063,701
Liability for asset retirement obligation	-	-	-	-	-	-	-	-
Deferred rent liability	-	19,036	5,879	-	-	24,915	-	24,915
<b>Total liabilities</b>	20	16,539,479	6,896,616	21,361,090	9,420,370	54,217,575	(1,008)	54,216,567
<b>Commitments and contingencies</b>								
<b>Net assets (deficit)</b>								
Unrestricted	5,381,512	-	-	-	-	5,381,512	-	5,381,512
Members' equity	-	4,566,530	339,250	(85,934)	561,686	5,381,532	(5,381,532)	-
Temporarily restricted	-	-	-	-	-	-	-	-
<b>Total net assets (deficit)</b>	<b>5,381,512</b>	<b>4,566,530</b>	<b>339,250</b>	<b>(85,934)</b>	<b>561,686</b>	<b>10,763,044</b>	<b>(5,381,532)</b>	<b>5,381,512</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,381,532</b>	<b>\$ 21,106,009</b>	<b>\$ 7,235,866</b>	<b>\$ 21,275,156</b>	<b>\$ 9,982,056</b>	<b>\$ 64,980,619</b>	<b>\$ (5,382,540)</b>	<b>\$ 59,598,079</b>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS FACILITIES CORPORATION  
AND SUBSIDIARIES**  
(A NONPROFIT ORGANIZATION)  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2012

	Alliance for College-Ready Public Schools Facilities Corporation	54th Street Lions LLC	11410 Avalon LLC	1918 Broadway Charter Facilities LLC	1610 S. Main Street Charter Facilities LLC	Total	Eliminating Entries	Consolidated Alliance for College-Ready Public Schools Facilities Corporation
<b>Revenue and support</b>								
Private grants and contributions	\$ 5,724,170	\$ -	\$ -	\$ -	\$ -	\$ 5,724,170	\$ -	\$ 5,724,170
Management fees	-	-	-	-	-	-	-	-
Federal revenue	-	-	-	-	-	-	-	-
State apportionment	-	-	-	-	-	-	-	-
Other state revenues	-	-	-	-	-	-	-	-
Local revenues	-	-	-	-	-	-	-	-
Rent income	-	1,255,090	499,545	-	232,395	1,987,030	-	1,987,030
Interest and other income	-	-	71	739	-	810	-	810
Investment (loss) in subsidiaries	(336,638)	-	-	-	-	(336,638)	336,638	-
<b>Total revenue and support</b>	<b>5,387,532</b>	<b>1,255,090</b>	<b>499,616</b>	<b>739</b>	<b>232,395</b>	<b>7,375,372</b>	<b>336,638</b>	<b>7,712,010</b>
<b>Functional expenses</b>								
Program services	-	1,452,488	485,653	77,160	18,646	2,033,947	-	2,033,947
Support services								
Management and general	6,020	215,960	124,137	43,267	9,388	398,772	-	398,772
Fundraising	-	-	-	-	-	-	-	-
<b>Total functional expenses</b>	<b>6,020</b>	<b>1,668,448</b>	<b>609,790</b>	<b>120,427</b>	<b>28,034</b>	<b>2,432,719</b>	<b>-</b>	<b>2,432,719</b>
<b>Change in net assets</b>	<b>5,381,512</b>	<b>(413,358)</b>	<b>(110,174)</b>	<b>(119,688)</b>	<b>204,361</b>	<b>4,942,653</b>	<b>336,638</b>	<b>5,279,291</b>
<b>Member contributions</b>	-	5,688,466	845,693	33,754	357,325	6,925,238	(6,925,238)	-
<b>Member distributions</b>	-	(3,934,881)	(1,005,159)	-	-	(4,940,040)	4,940,040	-
<b>Net assets, beginning of year</b>	-	3,226,303	608,890	-	-	3,835,193	(3,732,972)	102,221
<b>Net assets (deficit), end of year</b>	<b>\$ 5,381,512</b>	<b>\$ 4,566,530</b>	<b>\$ 339,250</b>	<b>\$ (85,934)</b>	<b>\$ 561,686</b>	<b>\$ 10,763,044</b>	<b>\$ (5,381,532)</b>	<b>\$ 5,381,512</b>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES  
(A NONPROFIT ORGANIZATION)  
COMBINING STATEMENT OF FINANCIAL POSITION  
June 30, 2012**

	Consolidated Alliance for College-Ready Public Schools	Consolidated Alliance for College-Ready Facilities Corporation	Alliance Gertz- Reesler High School	Alliance Huntington Park College-Ready Academy High School	Alliance Judy Via Burton Technology Academy High School	Alliance Marc and Eve Stem Math and Science School	Alliance Dr. Olga Mohan High School	Alliance College-Ready Academy High School No. 5	Alliance William and Carol Ouchi High School	Alliance College-Ready Academy High School No. 7	Alliance Health Services Academy High School	Alliance Media Arts and Entertainment Design High School	Alliance Environmental Science and Technology High School
<i>(continued on the next page)</i>													
<b>ASSETS</b>													
<b>Current assets</b>													
Cash and cash equivalents	\$ 5,765,607	\$ 329,334	\$ 1,526,140	\$ 1,349,661	\$ 1,465,285	\$ 1,502,342	\$ 889,154	\$ 947,007	\$ 1,942,903	\$ 490,160	\$ 198,088	\$ 440,212	\$ 210,800
Grants, contributions and pledges receivable, current portion	1,316,767	-	8,000	-	-	-	-	-	-	-	-	-	-
Related party receivable	1,150,000	-	-	-	-	-	-	-	-	-	-	-	-
Public funding receivables	243,542	-	1,212,320	1,442,637	1,464,878	1,378,349	1,028,605	1,587,165	1,314,037	887,188	924,021	540,224	1,064,930
Due from related parties	2,358,911	288,140	6,294	-	18	-	-	7,296	3,445	-	-	32,076	-
Related party note receivable, current portion	3,055,000	-	350,000	1,650,000	-	-	975,000	-	1,200,000	-	-	-	-
Assets limited to use, current portion	9,702,363	15,223,283	2,000	-	-	-	-	50	4,000	-	14,441	-	-
Prepaid expenses	399,124	40,727	50,198	11,131	22,768	32,343	4,273	24,928	5,854	135,440	8,822	46,932	46,104
<b>Total current assets</b>	<b>23,991,314</b>	<b>15,881,484</b>	<b>3,154,952</b>	<b>4,453,429</b>	<b>2,952,949</b>	<b>2,913,034</b>	<b>2,897,032</b>	<b>2,566,446</b>	<b>4,470,239</b>	<b>1,512,788</b>	<b>1,145,372</b>	<b>1,059,444</b>	<b>1,321,834</b>
Grants, contributions and pledges receivable, net of current portion	557,805	-	-	-	-	-	-	-	-	-	-	-	-
Related party, net of current portion	2,367,920	-	-	-	-	-	-	-	-	-	-	-	-
Related party note receivable	1,000,000	-	-	-	-	-	-	-	-	-	-	-	-
Note receivable	16,386,995	-	-	-	-	-	-	-	-	-	-	-	-
Deferred rent receivable	2,913,522	12,666	-	-	-	-	-	-	13,156	-	-	-	-
Assets limited as to use, net of current portion	3,215,537	2,681,479	-	-	-	-	-	-	-	-	-	-	-
Other long-term assets	28,910	121,263	13,549	8,900	5,598	7,895	9,690	27,500	8,467	14,092	1,364	25,060	-
Deferred financing costs	1,093,610	3,559,861	-	-	-	-	-	-	-	-	-	-	-
Property and equipment, net	83,051,266	37,341,326	63,802	176,260	509,561	155,603	151,830	106,336	62,944	16,964	118,587	76,903	122,693
<b>Total assets</b>	<b>\$ 134,606,879</b>	<b>\$ 69,598,079</b>	<b>\$ 3,232,303</b>	<b>\$ 4,638,589</b>	<b>\$ 3,468,108</b>	<b>\$ 3,076,532</b>	<b>\$ 3,068,852</b>	<b>\$ 2,700,282</b>	<b>\$ 4,654,806</b>	<b>\$ 1,543,844</b>	<b>\$ 1,265,323</b>	<b>\$ 1,161,407</b>	<b>\$ 1,444,827</b>
<b>LIABILITIES AND NET ASSETS</b>													
<b>Liabilities</b>													
Accounts payable and accrued expenses	\$ 1,260,227	\$ 1,228,449	\$ 94,299	\$ 127,483	\$ 84,282	\$ 190,230	\$ 420,194	\$ 191,554	\$ 94,909	\$ 84,119	\$ 54,813	\$ 49,748	\$ 86,105
Due to related parties	-	591,077	71,417	82,661	50,470	183,696	31,388	65,531	154,481	210,854	56,693	18,673	24,566
Deferred revenue	8,520,880	-	-	-	-	-	-	-	-	-	-	-	-
Due to beneficiary	-	-	2,000	-	-	-	-	50	4,000	-	-	-	-
Related party note payable, current portion	4,475,000	-	-	-	-	-	-	-	-	700,000	70,000	250,000	770,000
Capital lease obligation, current portion	27,487	-	-	-	-	-	-	-	-	-	-	-	-
Long-term debt, current portion	1,373,006	308,425	-	-	-	20,000	-	-	-	20,000	20,000	20,000	20,000
<b>Total current liabilities</b>	<b>15,656,600</b>	<b>2,127,951</b>	<b>167,716</b>	<b>210,144</b>	<b>134,752</b>	<b>393,926</b>	<b>451,582</b>	<b>257,135</b>	<b>253,390</b>	<b>1,014,973</b>	<b>201,506</b>	<b>338,421</b>	<b>900,671</b>
Long-term related party note payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term capital lease obligation, net of current portion	45,225	-	-	-	-	-	-	-	-	-	-	-	-
Long-term debt, net of current portion	86,569,245	52,063,701	-	-	-	40,000	-	-	-	40,000	40,000	40,000	40,001
Liability for asset retirement obligation	255,288	-	-	-	-	-	-	-	-	-	-	-	-
Deferred rent liabilities	10,461	24,915	-	744,605	96,913	669,944	-	13,999	-	-	-	-	-
<b>Total liabilities</b>	<b>102,536,819</b>	<b>54,216,567</b>	<b>167,716</b>	<b>954,749</b>	<b>231,665</b>	<b>1,103,870</b>	<b>451,582</b>	<b>271,134</b>	<b>253,390</b>	<b>1,054,973</b>	<b>241,506</b>	<b>378,421</b>	<b>940,672</b>
<b>Commitments and contingencies</b>													
<b>Net assets (deficit)</b>													
Unrestricted (deficit)	24,481,922	5,381,512	3,058,536	3,683,840	3,217,787	1,934,274	2,606,970	2,429,148	4,301,416	488,821	949,416	772,107	499,390
Temporarily restricted	7,588,138	-	6,051	-	18,656	38,388	-	-	-	50	74,401	10,879	4,465
<b>Total net assets (deficit)</b>	<b>32,070,060</b>	<b>5,381,512</b>	<b>3,064,587</b>	<b>3,683,840</b>	<b>3,236,443</b>	<b>1,972,662</b>	<b>2,606,970</b>	<b>2,429,148</b>	<b>4,301,416</b>	<b>488,871</b>	<b>1,023,817</b>	<b>782,986</b>	<b>503,855</b>
<b>Total liabilities and net assets</b>	<b>\$ 134,606,879</b>	<b>\$ 69,598,079</b>	<b>\$ 3,232,303</b>	<b>\$ 4,638,589</b>	<b>\$ 3,468,108</b>	<b>\$ 3,076,532</b>	<b>\$ 3,068,852</b>	<b>\$ 2,700,282</b>	<b>\$ 4,654,806</b>	<b>\$ 1,543,844</b>	<b>\$ 1,265,323</b>	<b>\$ 1,161,407</b>	<b>\$ 1,444,827</b>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES  
(A NONPROFIT ORGANIZATION)  
COMBINING STATEMENT OF FINANCIAL POSITION  
June 30, 2012**

	Alliance Cindy and Bill Simon Technology High School	Alliance Tennenbaum Family Technology High School	Alliance Susan and Eric Smlid Technology High School	Alliance College-Ready Academy High School No. 16	Alliance Renee and Meyer Luskin Academy High School	Alliance College-Ready Academy High School No. 18	Alliance Richard Merkin Middle School	Alliance Jack H. Skirball Middle School	Alliance Christine O'Donovan Middle Academy	Alliance College-Ready Middle Academy No. 4	Alliance College-Ready Middle Academy No. 5	Alliance College-Ready Middle Academy No. 7	Eliminating Entries	Combined Total
<i>(continued from the previous page)</i>														
<b>ASSETS</b>														
<b>Current assets</b>														
Cash and cash equivalents	\$ 303,229	\$ 479,332	\$ 227,664	\$ 139,332	\$ 249,986	\$ -	\$ 895,345	\$ 612,769	\$ 631,158	\$ 545,402	\$ 107,182	\$ 340,852	\$ -	\$ 21,588,946
Grants, contributions and pledges receivable, current portion	-	-	-	-	-	-	200	-	-	-	-	-	(731)	1,324,236
Related party receivable	-	-	-	-	-	-	-	5,467	-	-	-	-	-	1,155,467
Public funding receivables	765,233	294,319	5,135	225,201	-	-	1,059,570	936,581	1,060,298	1,029,495	533,459	695,902	-	19,693,089
Due from related parties	-	-	68,479	1,970	-	-	-	-	-	3,431	56,500	1,620	(2,828,180)	-
Related party note receivable, current portion	-	-	-	-	-	-	-	-	-	-	-	-	(7,230,000)	-
Assets limited to use, current portion	-	-	-	-	-	-	3,000	-	-	-	-	-	-	24,949,137
Prepaid expenses	8,812	17,672	-	10,524	12	-	9,216	8,586	4,542	61,503	17,254	33,464	-	1,000,229
<b>Total current assets</b>	<b>1,077,274</b>	<b>791,323</b>	<b>301,278</b>	<b>377,027</b>	<b>250,000</b>	<b>-</b>	<b>1,967,331</b>	<b>1,563,403</b>	<b>1,695,998</b>	<b>1,639,831</b>	<b>714,395</b>	<b>1,071,838</b>	<b>(10,058,911)</b>	<b>69,711,104</b>
Grants, contributions and pledges receivable, net of current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	557,805
Related party, net of current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	2,367,920
Related party note receivable	-	-	-	-	-	-	-	-	-	-	-	-	(1,000,000)	-
Note receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	16,386,995
Deferred rent receivable	-	-	-	-	-	-	-	5,879	5,879	-	-	-	(2,400,983)	550,119
Assets limited to use, net of current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	5,897,016
Other long-term assets	11,950	-	-	-	-	-	12,329	5,048	7,752	9,250	16,019	-	-	334,636
Deferred financing costs	-	-	-	-	-	-	-	-	-	-	-	-	(631,160)	4,022,311
Property and equipment, net	392,295	690,394	151,786	17,669	-	-	78,832	179,759	154,191	39,167	191,641	158,602	-	124,008,411
<b>Total assets</b>	<b>\$ 1,481,519</b>	<b>\$ 1,481,717</b>	<b>\$ 453,064</b>	<b>\$ 394,696</b>	<b>\$ 250,000</b>	<b>\$ -</b>	<b>\$ 2,058,492</b>	<b>\$ 1,754,089</b>	<b>\$ 1,863,820</b>	<b>\$ 1,688,248</b>	<b>\$ 922,055</b>	<b>\$ 1,230,440</b>	<b>\$ (14,091,054)</b>	<b>\$ 223,836,317</b>
<b>LIABILITIES AND NET ASSETS</b>														
<b>Liabilities</b>														
Accounts payable and accrued expenses	\$ 55,279	\$ 106,246	\$ -	\$ 78,786	-	-	\$ 171,451	\$ 198,457	\$ 145,560	\$ 106,481	\$ 144,984	\$ 141,086	\$ (731)	\$ 5,114,011
Due to related parties	148,676	195,439	229,366	12,230	18,358	80	72,535	66,212	222,157	48,891	13,086	259,643	(2,828,180)	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	8,520,880
Due to beneficiary	-	-	-	-	-	-	3,000	-	-	-	-	-	-	9,050
Related party note payable, current portion	400,000	-	-	140,000	-	-	-	-	100,000	175,000	50,000	400,000	(7,230,000)	300,000
Capital lease obligation, current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	27,487
Long-term debt, current portion	-	-	-	-	-	-	-	20,000	20,000	20,000	20,000	-	-	1,861,431
<b>Total current liabilities</b>	<b>603,955</b>	<b>301,685</b>	<b>229,366</b>	<b>231,016</b>	<b>18,358</b>	<b>80</b>	<b>246,986</b>	<b>284,669</b>	<b>487,717</b>	<b>350,372</b>	<b>228,070</b>	<b>800,729</b>	<b>(10,058,911)</b>	<b>15,832,859</b>
Long-term related party note payable	-	1,000,000	-	-	-	-	-	-	-	-	-	-	(1,000,000)	-
Long-term capital lease obligation, net of current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	45,225
Long-term debt, net of current portion	-	-	-	-	-	-	-	40,001	40,000	40,000	39,999	-	-	138,992,947
Liability for asset retirement obligation	-	-	-	-	-	-	-	-	-	-	-	-	-	255,288
Deferred rent liabilities	849,129	-	-	-	-	-	-	-	-	20,415	-	-	(2,400,983)	29,398
<b>Total liabilities</b>	<b>1,453,084</b>	<b>1,301,685</b>	<b>229,366</b>	<b>231,016</b>	<b>18,358</b>	<b>80</b>	<b>246,986</b>	<b>324,670</b>	<b>527,717</b>	<b>410,787</b>	<b>268,069</b>	<b>800,729</b>	<b>(13,459,894)</b>	<b>155,155,717</b>
<b>Commitments and contingencies</b>														
<b>Net assets (deficit)</b>														
Unrestricted (deficit)	(14,407)	156,499	(26,302)	(86,320)	(18,358)	(80)	1,762,946	1,429,419	1,285,647	1,261,899	653,986	139,711	(631,160)	59,718,619
Temporarily restricted	42,842	23,533	250,000	250,000	250,000	-	48,550	-	50,456	15,562	-	290,000	-	8,961,981
<b>Total net assets (deficit)</b>	<b>28,435</b>	<b>180,032</b>	<b>223,698</b>	<b>163,680</b>	<b>231,642</b>	<b>(80)</b>	<b>1,811,506</b>	<b>1,429,419</b>	<b>1,336,103</b>	<b>1,277,461</b>	<b>653,986</b>	<b>429,711</b>	<b>(631,160)</b>	<b>68,680,600</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,481,519</b>	<b>\$ 1,481,717</b>	<b>\$ 453,064</b>	<b>\$ 394,696</b>	<b>\$ 250,000</b>	<b>\$ -</b>	<b>\$ 2,058,492</b>	<b>\$ 1,754,089</b>	<b>\$ 1,863,820</b>	<b>\$ 1,688,248</b>	<b>\$ 922,055</b>	<b>\$ 1,230,440</b>	<b>\$ (14,091,054)</b>	<b>\$ 223,836,317</b>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES  
(A NONPROFIT ORGANIZATION)  
COMBINING STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2012**

	Consolidated Alliance for College-Ready Public Schools	Consolidated Alliance for College-Ready Public Schools Facilities Corporation	Alliance Gertz- Ressler High School	Alliance Huntington Park College-Ready Academy High School	Alliance Judy Ivie Burton Technology Academy High School	Alliance Marc and Eve Stern Math and Science School
	<i>(continued on the next page)</i>					
<b>Revenue and support</b>						
Private grants and contributions	\$ 12,222,112	\$ 5,724,170	\$ 14,149	\$ 2,000	\$ 193,496	\$ 207,200
Management fees	5,317,256	-	-	-	-	-
Federal revenue	2,657,531	-	763,937	510,510	677,719	686,481
State apportionment	-	-	2,787,645	3,116,382	3,307,016	2,955,784
Other state revenues	2,674,890	-	789,385	749,113	532,533	874,040
Local revenues	-	-	685,243	755,202	780,533	731,474
Rent income	6,180,208	1,987,030	-	-	-	-
Other school revenues	-	810	76,145	105,706	55,308	96,782
Interest and other income	1,304,810	-	2,373	6,426	1,802	647
<b>Total revenue and support</b>	<u>30,356,807</u>	<u>7,712,010</u>	<u>5,118,877</u>	<u>5,245,339</u>	<u>5,548,407</u>	<u>5,552,408</u>
<b>Functional expenses</b>						
Program services	12,808,757	2,033,947	4,061,791	4,189,439	4,440,416	4,517,664
Support services						
Management and general	9,106,402	398,772	600,234	520,750	700,411	588,682
Fundraising	443,458	-	-	-	-	-
<b>Total functional expenses</b>	<u>22,358,617</u>	<u>2,432,719</u>	<u>4,662,025</u>	<u>4,710,189</u>	<u>5,140,827</u>	<u>5,106,346</u>
<b>Change in net assets</b>	7,998,190	5,279,291	456,852	535,150	407,580	446,062
<b>Net assets (deficit), beginning of year</b>	<u>24,071,870</u>	<u>102,221</u>	<u>2,607,735</u>	<u>3,148,690</u>	<u>2,828,863</u>	<u>1,526,600</u>
<b>Net assets, end of year</b>	<u>\$ 32,070,060</u>	<u>\$ 5,381,512</u>	<u>\$ 3,064,587</u>	<u>\$ 3,683,840</u>	<u>\$ 3,236,443</u>	<u>\$ 1,972,662</u>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES  
(A NONPROFIT ORGANIZATION)  
COMBINING STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2012**

	Alliance Dr. Olga Mohan High School	Alliance College-Ready Academy High School No. 5	Alliance William and Carol Ouchi High School	Alliance College-Ready Academy High School No. 7	Alliance Health Services Academy High School	Alliance Media Arts and Entertainment Design High School	Alliance Environmental Science and Technology High School
<i>(continued on the next page)</i>							
<b>Revenue and support</b>							
Private grants and contributions	\$ 6,000	\$ -	\$ 45,900	\$ 21,120	\$ 42,025	\$ 2,000	\$ 11,000
Management fees	-	-	-	-	-	-	-
Federal revenue	519,865	808,979	591,552	336,288	383,002	327,322	420,113
State apportionment	2,332,248	3,311,029	2,727,939	2,416,196	2,111,587	1,572,894	2,339,093
Other state revenues	380,327	501,181	746,076	810,578	302,119	394,674	419,468
Local revenues	567,119	804,615	669,641	600,760	514,519	382,987	580,544
Rent income	-	-	-	134,865	-	-	-
Other school revenues	21,827	52,218	94,053	44,556	22,375	59,223	58,545
Interest and other income	3,663	433	75,681	772,553	25	32,082	7
<b>Total revenue and support</b>	<b>3,831,049</b>	<b>5,478,455</b>	<b>4,950,842</b>	<b>5,136,916</b>	<b>3,375,652</b>	<b>2,771,182</b>	<b>3,828,770</b>
<b>Functional expenses</b>							
Program services	3,206,030	4,564,019	3,610,727	3,557,869	2,668,992	2,240,257	3,000,061
Support services							
Management and general	400,608	714,232	391,810	421,531	392,621	297,903	506,391
Fundraising	-	-	-	-	-	-	-
<b>Total functional expenses</b>	<b>3,606,638</b>	<b>5,278,251</b>	<b>4,002,537</b>	<b>3,979,400</b>	<b>3,061,613</b>	<b>2,538,160</b>	<b>3,506,452</b>
<b>Change in net assets</b>	<b>224,411</b>	<b>200,204</b>	<b>948,305</b>	<b>1,157,516</b>	<b>314,039</b>	<b>233,022</b>	<b>322,318</b>
<b>Net assets (deficit), beginning of year</b>	<b>2,382,559</b>	<b>2,228,944</b>	<b>3,353,111</b>	<b>(668,645)</b>	<b>709,778</b>	<b>549,964</b>	<b>181,537</b>
<b>Net assets, end of year</b>	<b>\$ 2,606,970</b>	<b>\$ 2,429,148</b>	<b>\$ 4,301,416</b>	<b>\$ 488,871</b>	<b>\$ 1,023,817</b>	<b>\$ 782,986</b>	<b>\$ 503,855</b>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES  
(A NONPROFIT ORGANIZATION)  
COMBINING STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2012**

	Alliance Cindy and Bill Simon Technology High School	Alliance Tennenbaum Family Technology High School	Alliance Susan and Eric Smidt Technology High School	Alliance College-Ready Academy High School No. 16	Alliance Renee and Meyer Luskin Academy High School	Alliance College-Ready Academy High School No. 18	Alliance Richard Merkin Middle School
<i>(continued on the next page)</i>							
<b>Revenue and support</b>							
Private grants and contributions	\$ 200,831	\$ 200,500	\$ -	\$ -	\$ 250,000	\$ -	\$ 101,125
Management fees	-	-	-	-	-	-	-
Federal revenue	377,537	50,293	5,135	285,567	-	-	724,424
State apportionment	1,602,324	1,275,721	-	517,685	-	-	2,127,657
Other state revenues	194,791	170,087	-	49,628	-	-	702,725
Local revenues	392,214	300,250	-	124,396	-	-	610,905
Rent income	-	-	-	-	-	-	-
Other school revenues	14,919	16,509	-	7,305	-	-	28,801
Interest and other income	2,377	160	-	-	-	-	12,099
<b>Total revenue and support</b>	<b>2,784,993</b>	<b>2,013,520</b>	<b>5,135</b>	<b>984,581</b>	<b>250,000</b>	<b>-</b>	<b>4,307,736</b>
<b>Functional expenses</b>							
Program services	2,472,681	1,773,073	8,326	802,949	17,888	-	3,182,427
Support services							
Management and general	351,670	382,909	4,280	203,407	470	80	716,495
Fundraising	-	-	-	-	-	-	-
<b>Total functional expenses</b>	<b>2,824,351</b>	<b>2,155,982</b>	<b>12,606</b>	<b>1,006,356</b>	<b>18,358</b>	<b>80</b>	<b>3,898,922</b>
<b>Change in net assets</b>	<b>(39,358)</b>	<b>(142,462)</b>	<b>(7,471)</b>	<b>(21,775)</b>	<b>231,642</b>	<b>(80)</b>	<b>408,814</b>
<b>Net assets (deficit), beginning of year</b>	<b>67,793</b>	<b>322,494</b>	<b>231,169</b>	<b>185,455</b>	<b>-</b>	<b>-</b>	<b>1,402,692</b>
<b>Net assets, end of year</b>	<b>\$ 28,435</b>	<b>\$ 180,032</b>	<b>\$ 223,698</b>	<b>\$ 163,680</b>	<b>\$ 231,642</b>	<b>\$ (80)</b>	<b>\$ 1,811,506</b>

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

**ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS  
AND SCHOOL AFFILIATES**  
(A NONPROFIT ORGANIZATION)  
**COMBINING STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2012

	Alliance Jack H. Skirball Middle School	Alliance Christine O'Donovan Middle Academy	Alliance College-Ready Middle Academy No. 4	Alliance College-Ready Middle Academy No. 5	Alliance College-Ready Middle Academy No. 7	Eliminating Entries	Combined Total
<i>(continued from the previous page)</i>							
<b>Revenue and support</b>							
Private grants and contributions	\$ -	\$ 50,456	\$ -	\$ -	\$ 79,274	\$ (6,328,991)	\$ 13,044,367
Management fees	-	-	-	-	-	(5,317,256)	-
Federal revenue	605,280	706,496	506,900	263,626	421,038	-	12,629,595
State apportionment	1,954,920	2,082,317	2,222,563	1,152,067	1,225,626	-	43,138,693
Other state revenues	719,431	681,986	512,799	398,311	336,233	-	12,940,375
Local revenues	580,116	585,821	649,714	337,081	367,564	-	11,020,698
Rent income	-	-	-	-	177,655	(7,819,281)	660,477
Other school revenues	6,698	43,516	50,210	16,768	15,867	-	888,141
Interest and other income	39	46,936	10	648	-	(706,177)	1,556,594
<b>Total revenue and support</b>	<b>3,866,484</b>	<b>4,197,528</b>	<b>3,942,196</b>	<b>2,168,501</b>	<b>2,623,257</b>	<b>(20,171,705)</b>	<b>95,878,940</b>
<b>Functional expenses</b>							
Program services	2,916,347	3,047,207	2,931,838	1,815,838	2,200,901	(13,019,174)	63,050,270
Support services							
Management and general	577,996	431,399	412,385	302,234	361,910	(6,521,371)	12,264,211
Fundraising	-	-	-	-	-	-	443,458
<b>Total functional expenses</b>	<b>3,494,343</b>	<b>3,478,606</b>	<b>3,344,223</b>	<b>2,118,072</b>	<b>2,562,811</b>	<b>(19,540,545)</b>	<b>75,757,939</b>
<b>Change in net assets</b>	<b>372,141</b>	<b>718,922</b>	<b>597,973</b>	<b>50,429</b>	<b>60,446</b>	<b>(631,160)</b>	<b>20,121,001</b>
<b>Net assets (deficit), beginning of year</b>	<b>1,057,278</b>	<b>617,181</b>	<b>679,488</b>	<b>603,557</b>	<b>369,265</b>	<b>-</b>	<b>48,559,599</b>
<b>Net assets, end of year</b>	<b>\$ 1,429,419</b>	<b>\$ 1,336,103</b>	<b>\$ 1,277,461</b>	<b>\$ 653,986</b>	<b>\$ 429,711</b>	<b>\$ (631,160)</b>	<b>\$ 68,680,600</b>

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

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**UNAUDITED FINANCIAL STATEMENTS FOR THE  
FISCAL YEAR ENDED JUNE 30, 2013**

**ALLIANCE COLLEGE-READY PUBLIC SCHOOLS AND AFFILIATES**  
**(A NONPROFIT ORGANIZATION)**  
**COMBINED STATEMENT OF FINANCIAL POSITION**  
**June 30, 2013 (Unaudited)**  
**(with comparative totals as of June 30, 2012)**

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 22,383,412	\$ 21,588,946
Grants, contributions and pledges receivable, current portion	1,143,555	1,324,236
Related party receivable, current portion	1,400,750	1,155,467
Public funding receivables, current portion	25,251,707	19,693,089
Asset limited as to use, current portion	12,072,904	24,949,137
Prepaid expenses and other current assets	<u>926,137</u>	<u>1,000,229</u>
 Total current assets	 63,178,464	 69,711,104
 Grants, contributions and pledges receivable, net of current portion	 956,126	 557,805
Related party receivable, net of current portion	1,370,000	2,367,920
Note receivable, net of current portion	16,386,995	16,386,995
Deferred rent receivable	626,237	550,119
Assets limited as to use, net of current portion	7,016,189	5,897,016
Other long-term assets	170,936	334,636
Deferred financing costs	3,872,410	4,022,311
Property and equipment, net	<u>140,355,587</u>	<u>124,008,411</u>
 <b>Total assets</b>	 <b><u>\$ 233,932,945</u></b>	 <b><u>\$ 223,836,317</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 4,382,087	\$ 5,114,011
Deferred revenue	8,342,162	8,520,880
Due to beneficiary	9,500	9,050
Related party loan payable, current portion	300,000	300,000
Long-term capital lease obligation, current portion	-	27,487
Long-term debt, current portion	<u>10,083,270</u>	<u>1,861,431</u>
 Total current liabilities	 23,117,019	 15,832,859
 Long-term capital lease obligation, net of current	 -	 45,225
Long-term debt, net of current	129,025,000	138,992,947
Liability for asset retirement obligation	267,976	255,288
Deferred rent liability	<u>61,071</u>	<u>29,398</u>
 Total liabilities	 <u>152,471,065</u>	 <u>155,155,717</u>
 <b>Total net assets</b>	 <b><u>81,461,879</u></b>	 <b><u>68,680,600</u></b>
 <b>Total liabilities and net assets</b>	 <b><u>\$ 233,932,945</u></b>	 <b><u>\$ 223,836,317</u></b>

**ALLIANCE COLLEGE-READY PUBLIC SCHOOLS AND AFFILIATES**  
**(A NONPROFIT ORGANIZATION)**  
**COMBINED STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2013 (Unaudited)**  
**(with comparative totals for the year ended June 30, 2012)**

	<b>2013</b>	<b>2012</b>
<b>Revenue and support</b>		
Private grants and contributions	\$ 7,955,060	\$ 13,044,367
Federal revenue	15,575,247	13,633,099
State revenue	60,593,628	55,075,564
Local revenue	12,720,450	11,020,697
Other school revenue	762,258	887,330
Rent income	540,187	775,593
Interest and other income	1,428,160	1,442,290
Total revenue and support	99,574,989	95,878,940
<b>Expenses</b>		
Salaries	39,835,050	34,761,156
Benefits	8,788,058	7,625,598
Books and supplies	9,578,079	8,206,884
Sub-agreement services	2,316,626	1,954,449
Professional/consulting services	4,343,555	4,523,801
Facilities, repairs and other leases	2,995,551	3,532,391
Operations and housekeeping	6,370,618	5,146,060
Depreciation expense	4,568,829	3,653,629
Interest	7,997,237	6,353,971
Total expenses	86,793,603	75,757,939
<b>Change in net assets</b>	<b>12,781,386</b>	<b>20,121,001</b>
<b>Net assets, beginning of period</b>	<b>68,680,493</b>	<b>48,559,599</b>
<b>Net assets, end of period</b>	<b>\$ 81,461,879</b>	<b>\$ 68,680,600</b>

**ALLIANCE COLLEGE-READY PUBLIC SCHOOLS AND AFFILIATES**  
**(A NONPROFIT ORGANIZATION)**  
**COMBINED STATEMENT OF CASH FLOW**  
**For the year ended June 30, 2013 (Unaudited)**  
**(with comparative totals for the year ended June 30, 2012)**

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities</b>		
Change in net assets	12,781,386	20,121,001
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	4,568,829	3,825,720
Decrease (increase) in		
Related party receivable	752,637	(3,223,387)
Public funding receivables, net	(5,558,619)	(3,688,800)
Grants, contributions and pledges receivable, net	(254,060)	298,115
Prepaid expenses	111,246	(510,692)
Deferred rent receivable	(76,118)	(30,130)
Other assets	341,861	265,857
Decrease (increase) in		
Accounts payable and accrued expenses	(711,075)	(1,202,761)
Deferred revenue	(178,718)	(2,363,672)
Due to beneficiary	450	(13,627)
Deferred rent	(31,673)	(767,070)
<b>Total cash flows provided by operating activities</b>	<b>11,746,145</b>	<b>12,710,554</b>
<b>Cash flows from investing activities</b>		
Issuance of notes receivable	-	(16,386,995)
Purchases of property and equipment	(19,602,805)	(18,007,544)
<b>Total cash flows used in investing activities</b>	<b>(19,602,805)</b>	<b>(34,394,539)</b>
<b>Cash flows from financing activities</b>		
Transfers from/(to) assets limited as to use	10,469,945	(27,826,421)
Principal proceeds from/(payments on) long-term debt	(1,746,108)	42,985,459
Payments on capital lease obligation	(72,711)	(26,955)
<b>Total cash flows provided by/(used in) financing activities</b>	<b>8,651,126</b>	<b>15,132,083</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>794,466</b>	<b>(6,551,902)</b>
Cash and cash equivalents, beginning of period (July 1st)	21,588,946	28,140,848
<b>Cash and cash equivalents, end of period</b>	<b>22,383,412</b>	<b>21,588,946</b>

**ALLIANCE COLLEGE-READY PUBLIC SCHOOLS AND AFFILIATES**  
**(A NONPROFIT ORGANIZATION)**  
**PRO FORMA STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2013 (Unaudited)**

	<b>Alliance &amp; Facilities Corp</b>	<b>LLCs</b>	<b>Schools</b>	<b>Eliminations</b>	<b>Combined</b>
<b>Current assets</b>					
Cash and cash equivalents	\$ 1,988,174	\$ 2,093,887	\$ 18,301,351	\$ -	\$ 22,383,412
Grants, contributions and pledges receivable, current portion	893,355	-	250,200	-	1,143,555
Related party receivable	1,400,750	-	-	-	1,400,750
Public funding receivables, current portion	333,380	-	24,918,326	-	25,251,707
Due from related parties	1,621,926	295,141	645,787	(2,562,854)	-
Related party note receivable, current portion	4,270,000	-	4,875,000	(9,145,000)	-
Assets limited as to use, current portion	8,774,897	3,288,506	9,500	-	12,072,904
Prepaid expenses and other current assets	168,529	386,200	371,408	-	926,137
<b>Total current assets</b>	<b>19,451,012</b>	<b>6,063,735</b>	<b>49,371,572</b>	<b>(11,707,854)</b>	<b>63,178,464</b>
Grants, contributions and pledges receivable, net of current portion	956,126	-	-	-	956,126
Related party receivable, net of current portion	1,370,000	-	-	-	1,370,000
Related party note receivable, net of current portion	1,700,000	-	-	(1,700,000)	-
Note receivable	-	16,386,995	-	-	16,386,995
Deferred rent receivable	-	4,190,615	28,941	(3,593,319)	626,237
Assets limited as to use, net of current portion	1,381,788	5,634,401	-	-	7,016,189
Other long-term assets	52,578	14,400	103,958	-	170,936
Deferred financing costs	-	4,475,308	-	(602,899)	3,872,410
Investment in affiliates	27,685,496	-	-	(27,685,496)	-
Property and equipment, net	4,408,091	132,007,689	3,939,806	-	140,355,587
<b>Total assets</b>	<b>57,005,092</b>	<b>168,773,144</b>	<b>53,444,277</b>	<b>(45,289,568)</b>	<b>233,932,945</b>
<b>Liabilities</b>					
Accounts payable and accrued expenses	576,740	1,906,324	1,899,023	-	4,382,087
Due to related parties	570,473	96,136	1,896,245	(2,562,854)	-
Deferred revenue	8,342,162	-	-	-	8,342,162
Due to beneficiary	-	-	9,500	-	9,500
Related party note payable	5,175,000	-	4,270,000	(9,145,000)	300,000
Long-term debt, current portion	-	9,923,270	160,000	-	10,083,270
<b>Total current liabilities</b>	<b>14,664,374</b>	<b>11,925,731</b>	<b>8,234,768</b>	<b>(11,707,854)</b>	<b>23,117,019</b>
Related party note payable, net of current portion	-	-	1,700,000	(1,700,000)	-
Long-term debt, net of current portion	-	128,865,000	160,000	-	129,025,000
Liability for asset retirement obligation	-	267,976	-	-	267,976
Deferred rent liability	31,731	28,941	3,593,718	(3,593,319)	61,071
<b>Total liabilities</b>	<b>14,696,105</b>	<b>141,087,647</b>	<b>13,688,486</b>	<b>(17,001,173)</b>	<b>152,471,065</b>
<b>Net assets</b>					
Net assets, unrestricted	34,720,850	-	38,427,132	(602,899)	72,545,084
Members' equity	-	27,685,496	-	(27,685,496)	-
Net assets, restricted	7,588,136	-	1,328,659	-	8,916,796
<b>Total net assets</b>	<b>42,308,987</b>	<b>27,685,496</b>	<b>39,755,791</b>	<b>(28,288,395)</b>	<b>81,461,879</b>
<b>Total liabilities and net assets</b>	<b>57,005,092</b>	<b>168,773,144</b>	<b>53,444,277</b>	<b>(45,289,568)</b>	<b>233,932,945</b>

**ALLIANCE COLLEGE-READY PUBLIC SCHOOLS AND AFFILIATES**  
**(A NONPROFIT ORGANIZATION)**  
**PRO FORMA STATEMENTS OF ACTIVITIES**  
**For the year ended June 30, 2013 (Unaudited)**

	<b>Alliance &amp; Facilities Corp</b>	<b>LLCs</b>	<b>Schools</b>	<b>Eliminations</b>	<b>Combined</b>
Revenue and support					
Private grants and contributions	\$ 13,636,035	\$ -	\$ 1,922,782	\$ (7,603,757)	\$ 7,955,060
Federal revenue	1,415,747	737,122	13,422,377	-	15,575,247
State revenue	309,942	-	60,283,687	-	60,593,628
Local revenue	-	-	12,720,450	-	12,720,450
Other school revenue	-	-	762,258	-	762,258
Rent income	990	11,251,531	-	(10,712,334)	540,186.68
Management fees	6,379,300	-	-	(6,379,300)	-
Interest and other income	80,733	970,514	403,603	(26,690)	1,428,160
Investment gain in subsidiaries	2,006,300	-	-	(2,006,300)	-
<b>Total revenue and support</b>	<b>23,829,046</b>	<b>12,959,167</b>	<b>89,515,157</b>	<b>(26,728,382)</b>	<b>99,574,989</b>
Expenses					
Salaries	5,393,571	-	34,441,480	-	39,835,050
Benefits	917,074	-	7,870,984	-	8,788,058
Books and supplies	260,504	605	9,317,570	(600)	9,578,079
Subagreement services	347,280	1,685	1,967,660	-	2,316,626
Professional/consulting services	1,626,048	49,815	9,029,492	(6,361,800)	4,343,555
Facilities, repairs and other leases	598,586	143,902	12,965,397	(10,712,334)	2,995,551
Operations and housekeeping	9,177,735	427,926	4,618,715	(7,853,757)	6,370,618
Depreciation expense	594,533	2,375,314	1,627,244	(28,261)	4,568,829
Interest	56,315	7,953,621	13,392	(26,090)	7,997,237
<b>Total expenses</b>	<b>18,971,644</b>	<b>10,952,868</b>	<b>81,851,934</b>	<b>(24,982,843)</b>	<b>86,793,603</b>
Change in net assets	4,857,402	2,006,300	7,663,223	(1,745,539)	12,781,386
Member contribution	-	6,167,465	-	(6,167,465)	-
Member distribution	-	(2,424,403)	-	2,424,403	-
<b>Total beginning net assets</b>	<b>37,451,584</b>	<b>21,936,135</b>	<b>31,860,068</b>	<b>(22,567,295)</b>	<b>68,680,493</b>
<b>Ending net assets</b>	<b>42,308,987</b>	<b>27,685,496</b>	<b>39,523,291</b>	<b>(28,055,895)</b>	<b>81,461,879</b>

**Alliance College-Ready Public Schools and Affiliates - Real Estate LLCs**  
**Consolidating Statements of Financial Position**  
**June 30, 2013**  
**(Unaudited)**

	Alliance College-Ready							
	Public Schools	Holdings	2023 Union	HP Saturn	5151 Titan	10704 Wilmington	10101 Broadway	
<b>Current assets</b>								
Cash and cash equivalents	\$ 1,988,174	\$ -	\$ 158,228	\$ 197,349	\$ 277,134	\$ 207,396	\$ 84,776	
Grants, contributions and pledges receivable, current portion	893,355	-	-	-	-	-	-	
Related party receivable	1,400,750	-	-	-	-	-	-	
Public funding receivables, current portion	333,380	-	-	-	-	-	-	
Due from related parties	1,621,926	-	75,723	-	-	-	196,741	
Related party note receivable, current portion	4,270,000	-	-	-	-	-	-	
Assets limited as to use, current portion	8,774,897	-	-	511,530	-	-	-	
Prepaid expenses and other current assets	168,529	-	6,657	87,079	-	-	-	
<b>Total current assets</b>	<b>19,451,012</b>	<b>-</b>	<b>240,608</b>	<b>795,958</b>	<b>277,134</b>	<b>207,396</b>	<b>281,517</b>	
Grants, contributions and pledges receivable, net of current portion	956,126	-	-	-	-	-	-	
Related party receivable, net of current portion	1,370,000	-	-	-	-	-	-	
Related party note receivable, net of current portion	1,700,000	-	-	-	-	-	-	
Note receivable	-	-	-	-	-	-	-	
Deferred rent receivable	-	-	-	1,471,805	818,946	763,775	132,182	
Assets limited as to use, net of current portion	1,381,788	-	199,072	1,750,806	89,020	-	-	
Other long-term assets	52,578	-	-	-	-	-	6,000	
Deferred financing costs	-	-	-	683,422	-	-	-	
Investment in affiliates	15,768,508	-	-	-	-	-	-	
Property and equipment, net	4,408,091	1,740,027	12,348,418	13,014,471	11,416,165	7,839,650	5,854,368	
<b>Total assets</b>	<b>45,088,103</b>	<b>1,740,027</b>	<b>12,788,098</b>	<b>17,716,462</b>	<b>12,601,266</b>	<b>8,810,822</b>	<b>6,274,067</b>	
<b>Liabilities</b>								
Accounts payable and accrued expenses	576,740	-	9,904	418,825	-	34,531	24,947	
Due to related parties	570,473	-	240	1,537	12,417	19,038	13,731	
Deferred revenue	8,342,162	-	-	-	-	-	-	
Related party note payable	5,175,000	-	-	-	-	-	-	
Long-term debt, current portion	-	-	9,266,955	75,000	214,639	-	-	
<b>Total current liabilities</b>	<b>14,664,374</b>	<b>-</b>	<b>9,277,099</b>	<b>495,362</b>	<b>227,056</b>	<b>53,569</b>	<b>38,678</b>	
Long-term debt, net of current portion	-	-	-	15,575,000	7,321,378	8,041,387	5,774,817	
Liability for asset retirement obligation	-	-	-	-	267,976	-	-	
Deferred rent liability	31,731	-	-	-	-	-	-	
<b>Total liabilities</b>	<b>14,696,105</b>	<b>-</b>	<b>9,277,099</b>	<b>16,070,362</b>	<b>7,816,410</b>	<b>8,094,956</b>	<b>5,813,495</b>	
<b>Net assets</b>								
Net assets, unrestricted	22,803,862	-	-	-	-	-	-	
Members' equity	-	1,740,027	3,510,999	1,646,100	4,784,856	715,866	460,571	
Net assets, restricted	7,588,136	-	-	-	-	-	-	
<b>Total net assets</b>	<b>30,391,998</b>	<b>1,740,027</b>	<b>3,510,999</b>	<b>1,646,100</b>	<b>4,784,856</b>	<b>715,866</b>	<b>460,571</b>	
<b>Total liabilities and net assets</b>	<b>45,088,103</b>	<b>1,740,027</b>	<b>12,788,098</b>	<b>17,716,462</b>	<b>12,601,266</b>	<b>8,810,822</b>	<b>6,274,067</b>	

**Alliance College-Ready Public Schools and Affiliates - Real Estate LLCs**  
**Consolidating Statements of Financial Position**  
**June 30, 2013**  
**(Unaudited)**

	9719 Main Street	70th Street Charter	6900 8th Ave Charter	1918 Broadway Financing	Eliminations	Consolidated Alliance College-Ready Public Schools
<b>Current assets</b>						
Cash and cash equivalents	\$ 248,352	\$ 131,640	\$ 151,714	\$ -	\$ -	\$ 3,444,763
Grants, contributions and pledges receivable, current portion	-	-	-	-	-	893,355
Related party receivable	-	-	-	-	-	1,400,750
Public funding receivables, current portion	-	-	-	-	-	333,380
Due from related parties	-	1,286	-	-	(45,802)	1,849,874
Related party note receivable, current portion	-	-	-	-	-	4,270,000
Assets limited as to use, current portion	-	-	-	8,257	-	9,294,685
Prepaid expenses and other current assets	-	59,420	53,118	73,813	-	448,615
<b>Total current assets</b>	<b>248,352</b>	<b>192,346</b>	<b>204,832</b>	<b>82,070</b>	<b>(45,802)</b>	<b>21,935,422</b>
Grants, contributions and pledges receivable, net of current portion	-	-	-	-	-	956,126
Related party receivable, net of current portion	-	-	-	-	-	1,370,000
Related party note receivable, net of current portion	-	-	-	-	-	1,700,000
Note receivable	-	-	-	16,386,995	-	16,386,995
Deferred rent receivable	34,024	-	-	-	-	3,220,733
Assets limited as to use, net of current portion	-	-	185,128	706,550	-	4,312,364
Other long-term assets	-	-	-	-	-	58,578
Deferred financing costs	-	-	-	365,532	-	1,048,955
Investment in affiliates	-	-	-	-	(15,768,508)	-
Property and equipment, net	5,510,967	10,419,553	9,057,511	-	-	81,609,221
<b>Total assets</b>	<b>5,793,343</b>	<b>10,611,899</b>	<b>9,447,470</b>	<b>17,541,147</b>	<b>(15,814,310)</b>	<b>132,598,394</b>
<b>Liabilities</b>						
Accounts payable and accrued expenses	23,140	52,247	49,019	46,639	-	1,235,994
Due to related parties	12,656	-	-	-	(45,802)	584,289
Deferred revenue	-	-	-	-	-	8,342,162
Related party note payable	-	-	-	-	-	5,175,000
Long-term debt, current portion	-	46,576	-	-	-	9,603,170
<b>Total current liabilities</b>	<b>35,796</b>	<b>98,823</b>	<b>49,019</b>	<b>46,639</b>	<b>(45,802)</b>	<b>24,940,614</b>
Long-term debt, net of current portion	5,322,685	10,454,311	9,463,822	15,012,675	-	76,966,075
Liability for asset retirement obligation	-	-	-	-	-	267,976
Deferred rent liability	-	-	-	-	-	31,731
<b>Total liabilities</b>	<b>5,358,481</b>	<b>10,553,134</b>	<b>9,512,841</b>	<b>15,059,314</b>	<b>(45,802)</b>	<b>102,206,396</b>
<b>Net assets</b>						
Net assets, unrestricted	-	-	-	-	-	22,803,862
Members' equity	434,862	58,765	(65,371)	2,481,833	(15,768,508)	-
Net assets, restricted	-	-	-	-	-	7,588,136
<b>Total net assets</b>	<b>434,862</b>	<b>58,765</b>	<b>(65,371)</b>	<b>2,481,833</b>	<b>(15,768,508)</b>	<b>30,391,998</b>
<b>Total liabilities and net assets</b>	<b>5,793,343</b>	<b>10,611,899</b>	<b>9,447,470</b>	<b>17,541,147</b>	<b>(15,814,310)</b>	<b>132,598,394</b>

Alliance College-Ready Public Schools and Affiliates - Real Estate LLCs  
Consolidating Statements of Activities  
For the year ended June 30, 2013  
(Unaudited)

	Alliance College-Ready							
	Public Schools	Holdings	2023 Union	HP Saturn	5151 Titan	10704 Wilmington	10101 Broadway	
Revenue and support								
Private grants and contributions	\$ 7,476,135	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Management fees	6,379,300	-	-	-	-	-	-	-
Federal revenue	1,415,747	-	-	-	-	-	-	-
State revenue	309,942	-	-	-	-	-	-	-
Rent income	990	-	1,502,681	1,297,243	932,938	575,570	687,061	
Interest and other income	80,733	-	-	84,088	-	-	-	-
Investment gain in subsidiaries	1,629,553	-	-	-	-	-	-	-
Total revenue and support	17,292,400	-	1,502,681	1,381,331	932,938	575,570	687,061	
Expenses								
Salaries	5,393,571	-	-	-	-	-	-	-
Benefits	917,074	-	-	-	-	-	-	-
Books and supplies	260,504	-	-	-	-	-	-	-
Subagreement services	347,280	-	311	-	-	-	-	-
Professional/consulting services	1,625,053	2,470	8,118	3,894	2,470	2,470	2,470	
Facilities, repairs and other leases	598,586	-	54,613	27,402	-	-	6,537	
Operations and housekeeping	9,177,560	-	122,224	34,300	420	20	20	
Depreciation expense	594,533	71,571	216,204	142,791	335,833	211,148	201,447	
Interest	56,315	-	570,511	853,589	356,340	420,128	303,524	
Total expenses	18,970,474	74,041	971,982	1,061,976	695,063	633,765	513,998	
Change in net assets	(1,678,074)	(74,041)	530,699	319,355	237,874	(58,196)	173,063	
Member contribution	-	2,470	-	-	-	-	-	
Member distribution	-	-	(1,298,351)	-	(450,000)	(228,456)	(164,772)	
Total beginning net assets	32,070,072	1,811,597	4,278,651	1,326,744	4,996,982	1,002,517	452,280	
Ending net assets	30,391,998	1,740,027	3,510,999	1,646,100	4,784,856	715,866	460,571	

**Alliance College-Ready Public Schools and Affiliates - Real Estate LLCs**  
**Consolidating Statements of Activities**  
**For the year ended June 30, 2013**  
**(Unaudited)**

	9719 Main Street	70th Street Charter	6900 8th Ave Charter	1918 Broadway Financing	Eliminations	Consolidated Alliance College-Ready Public Schools
Revenue and support						
Private grants and contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,476,135
Management fees	-	-	-	-	-	6,379,300
Federal revenue	-	-	-	737,122	-	2,152,869
State revenue	-	-	-	-	-	309,942
Rent income	695,156	701,762	626,515	-	-	7,019,916
Interest and other income	-	-	185	885,809	-	1,050,815
Investment gain in subsidiaries	-	-	-	-	(1,629,553)	-
<b>Total revenue and support</b>	<b>695,156</b>	<b>701,762</b>	<b>626,700</b>	<b>1,622,932</b>	<b>(1,629,553)</b>	<b>24,388,977</b>
Expenses						
Salaries	-	-	-	-	-	5,393,571
Benefits	-	-	-	-	-	917,074
Books and supplies	-	-	-	-	-	260,504
Subagreement services	-	-	-	-	-	347,592
Professional/consulting services	2,470	2,570	2,470	2,470	-	1,656,924
Facilities, repairs and other leases	-	11,762	10,515	-	-	709,415
Operations and housekeeping	20	20	20	35,536	-	9,370,139
Depreciation expense	132,396	197,678	109,060	-	-	2,212,661
Interest	281,541	620,403	596,399	1,140,423	-	5,199,172
<b>Total expenses</b>	<b>416,427</b>	<b>832,433</b>	<b>718,464</b>	<b>1,178,429</b>	<b>-</b>	<b>26,067,051</b>
Change in net assets	278,729	(130,671)	(91,764)	444,503	(1,629,553)	(1,678,074)
Member contribution	-	-	-	6,285	(8,755)	-
Member distribution	(267,511)	-	-	(15,313)	2,424,403	-
<b>Total beginning net assets</b>	<b>423,644</b>	<b>189,436</b>	<b>26,393</b>	<b>2,046,358</b>	<b>(16,554,602)</b>	<b>32,070,072</b>
<b>Ending net assets</b>	<b>434,862</b>	<b>58,765</b>	<b>(65,371)</b>	<b>2,481,833</b>	<b>(15,768,508)</b>	<b>30,391,998</b>

**Alliance College Ready Public Schools Facilities Corporation and Affiliates - Real Estate LLCs**  
**Consolidating Statements of Financial Position**  
**June 30, 2013**  
**(Unaudited)**

	Alliance Facilities Corporation	11410 Avalon	54th Street Lions	1918 Broadway Facilities	4610 S Main Street	7907 Santa Fe Avenue Charter Facilities LLC
<b>Current assets</b>						
Cash and cash equivalents	\$ -	\$ 225,980	\$ 245,233	\$ 83,568	\$ 82,517	\$ -
Due from related parties	-	-	14,951	6,441	-	-
Assets limited as to use, current portion	-	332,391	775,743	1,350,803	309,782	-
Prepaid expenses and other current assets	-	2,912	48,782	39,500	14,920	-
<b>Total current assets</b>	-	561,283	1,084,709	1,480,312	407,219	-
Deferred rent receivable	-	-	-	948,436	21,447	-
Assets limited as to use, net of current portion	-	547,639	1,277,825	357,200	521,161	-
Other long-term assets	-	-	300	8,100	-	-
Deferred financing costs	-	242,736	566,384	1,946,789	670,445	-
Investment in affiliates	11,916,989	-	-	-	-	-
Property and equipment, net	-	6,094,989	17,873,073	17,020,326	8,612,642	2,555,053
<b>Total assets</b>	<b>11,916,989</b>	<b>7,446,647</b>	<b>20,802,290</b>	<b>21,761,162</b>	<b>10,232,914</b>	<b>2,555,053</b>
<b>Liabilities</b>						
Accounts payable and accrued expenses	-	267,266	624,995	90,778	264,032	-
Due to related parties	-	-	561	35,957	-	-
Long-term debt, current portion	-	61,500	143,500	-	115,100	-
<b>Total current liabilities</b>	-	328,766	769,056	126,735	379,132	-
Long-term debt, net of current portion	-	6,514,721	15,199,348	21,164,106	9,020,750	-
Deferred rent liability	-	7,060	21,881	-	-	-
<b>Total liabilities</b>	-	6,850,546	15,990,285	21,290,841	9,399,882	-
<b>Net assets</b>						
Net assets, unrestricted	11,916,989	-	-	-	-	-
Members' equity	-	596,100	4,812,006	470,321	833,032	2,555,053
Net assets, restricted	-	-	-	-	-	-
<b>Total net assets</b>	<b>11,916,989</b>	<b>596,100</b>	<b>4,812,006</b>	<b>470,321</b>	<b>833,032</b>	<b>2,555,053</b>
<b>Total liabilities and net assets</b>	<b>11,916,989</b>	<b>7,446,647</b>	<b>20,802,290</b>	<b>21,761,162</b>	<b>10,232,914</b>	<b>2,555,053</b>

**Alliance College Ready Public Schools Facilities Corporation and Affiliates - Real Estate LLCs**  
**Consolidating Statements of Financial Position**  
**June 30, 2013**  
**(Unaudited)**

	5886 Compton Avenue Charter Facilities LLC	1552 Rockwood Street Charter Facilities LLC	49th and Main Charter Facilities LLC	Eliminations	Consolidated Alliance Facilities Corporation
<b>Current assets</b>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 637,298
Due from related parties	-	-	-	-	21,391
Assets limited as to use, current portion	-	-	-	-	2,768,719
Prepaid expenses and other current assets	-	-	-	-	106,114
<b>Total current assets</b>	-	-	-	-	3,533,522
Deferred rent receivable	-	-	-	-	969,883
Assets limited as to use, net of current portion	-	-	-	-	2,703,825
Other long-term assets	-	-	-	-	8,400
Deferred financing costs	-	-	-	-	3,426,354
Investment in affiliates	-	-	-	(11,916,989)	-
Property and equipment, net	2,386,517	163,960	100,000	-	54,806,559
<b>Total assets</b>	<b>2,386,517</b>	<b>163,960</b>	<b>100,000</b>	<b>(11,916,989)</b>	<b>65,448,543</b>
<b>Liabilities</b>					
Accounts payable and accrued expenses	-	-	-	-	1,247,071
Due to related parties	-	-	-	-	36,518
Long-term debt, current portion	-	-	-	-	320,100
<b>Total current liabilities</b>	-	-	-	-	1,603,689
Long-term debt, net of current portion	-	-	-	-	51,898,925
Deferred rent liability	-	-	-	-	28,941
<b>Total liabilities</b>	-	-	-	-	53,531,554
<b>Net assets</b>					
Net assets, unrestricted	-	-	-	-	11,916,989
Members' equity	2,386,517	163,960	100,000	(11,916,989)	-
Net assets, restricted	-	-	-	-	-
<b>Total net assets</b>	<b>2,386,517</b>	<b>163,960</b>	<b>100,000</b>	<b>(11,916,989)</b>	<b>11,916,989</b>
<b>Total liabilities and net assets</b>	<b>2,386,517</b>	<b>163,960</b>	<b>100,000</b>	<b>(11,916,989)</b>	<b>65,448,543</b>

**Alliance College-Ready Public Schools Facilities Corporation and Affiliates - Real Estate LLCs**  
**Consolidating Statements of Activities**  
**For the year ended June 30, 2013**  
**(Unaudited)**

	Alliance Facilities Corp	11410 Avalon	54th Street Lions	1918 Broadway Facilities	4610 S Main Street	7907 Santa Fe Avenue Charter Facilities LLC
Revenue and support						
Private grants and contributions	\$ 6,159,900	\$ -	\$ -	\$ -	\$ -	\$ -
Rent income	-	532,707	1,329,338	1,670,511	700,049	-
Interest and other income	-	-	-	432	-	-
Investment gain in subsidiaries	376,746	-	-	-	-	-
<b>Total revenue and support</b>	<b>6,536,646</b>	<b>532,707</b>	<b>1,329,338</b>	<b>1,670,943</b>	<b>700,049</b>	<b>-</b>
Expenses						
Books and supplies	-	-	-	605	-	-
Subagreement services	-	-	344	1,030	-	-
Professional/consulting services	995	2,470	6,534	3,470	5,470	-
Facilities, repairs and other leases	-	(1,827)	8,371	17,474	9,055	-
Operations and housekeeping	175	4,883	94,920	116,696	18,846	-
Depreciation expense	-	108,583	295,728	251,968	100,906	-
Interest	-	466,340	1,088,113	861,885	394,426	-
<b>Total expenses</b>	<b>1,170</b>	<b>580,450</b>	<b>1,494,010</b>	<b>1,253,128</b>	<b>528,703</b>	<b>-</b>
Change in net assets	6,535,476	(47,743)	(164,672)	417,815	171,346	-
Member contribution	-	304,594	410,145	138,440	100,000	2,555,053
Member distribution	-	-	-	-	-	-
<b>Total beginning net assets</b>	<b>5,381,513</b>	<b>339,249</b>	<b>4,566,533</b>	<b>(85,935)</b>	<b>561,686</b>	<b>-</b>
<b>Ending net assets</b>	<b>11,916,989</b>	<b>596,100</b>	<b>4,812,006</b>	<b>470,321</b>	<b>833,032</b>	<b>2,555,053</b>

**Alliance College-Ready Public Schools Facilities Corporation and Affiliates - Real Estate LLCs**  
**Consolidating Statements of Activities**  
**For the year ended June 30, 2013**  
**(Unaudited)**

	5886 Compton Avenue Charter Facilities LLC	1552 Rockwood Street Charter Facilities LLC	49th and Main Charter Facilities LLC	Eliminations	<b>Consolidated Alliance Facilities Corporation</b>
Revenue and support					
Private grants and contributions	\$ -	\$ -	\$ -	\$ -	\$ 6,159,900
Rent income	-	-	-	-	4,232,605
Interest and other income	-	-	-	-	432
Investment gain in subsidiaries	-	-	-	(376,746)	-
<b>Total revenue and support</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(376,746)</b>	<b>10,392,937</b>
Expenses					
Books and supplies	-	-	-	-	605
Subagreement services	-	-	-	-	1,374
Professional/consulting services	-	-	-	-	18,939
Facilities, repairs and other leases	-	-	-	-	33,073
Operations and housekeeping	-	-	-	-	235,521
Depreciation expense	-	-	-	-	757,185
Interest	-	-	-	-	2,810,763
<b>Total expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,857,461</b>
Change in net assets	-	-	-	(376,746)	6,535,476
Member contribution	2,386,517	163,960	100,000	(6,158,710)	-
Member distribution	-	-	-	-	-
<b>Total beginning net assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,381,533)</b>	<b>5,381,513</b>
<b>Ending net assets</b>	<b>2,386,517</b>	<b>163,960</b>	<b>100,000</b>	<b>(11,916,989)</b>	<b>11,916,989</b>

**Alliance College-Ready Public Schools and Affiliates - 501(c)(3) Schools**  
**Combining Statements of Financial Position**  
**June 30, 2013**  
**(Unaudited)**

	Consolidated Alliance		Consolidated Alliance				
	Consolidated Alliance Facilities Corporation	College-Ready Public Schools	Gertz	Burton Technology Academy High School	Collins Family	Dr. Olga Mohan High School	MASS
<b>Current assets</b>							
Cash and cash equivalents	\$ 637,298	\$ 3,444,763	\$ 1,891,603	\$ 1,924,232	\$ 1,645,125	\$ 782,685	\$ 1,659,313
Grants, contributions and pledges receivable, current portion	-	893,355	-	-	-	-	-
Related party receivable	-	1,400,750	-	-	-	-	-
Public funding receivables, current portion	-	333,380	1,575,810	1,772,595	1,831,994	1,366,862	1,803,140
Due from related parties	21,391	1,849,874	3,909	3,292	4,996	4,722	12,417
Related party note receivable, current portion	-	4,270,000	-	-	1,900,000	975,000	-
Assets limited as to use, current portion	2,768,719	9,294,685	1,000	-	500	-	-
Prepaid expenses and other current assets	106,114	448,615	5,120	26,811	8,901	4,413	12,200
<b>Total current assets</b>	<b>3,533,522</b>	<b>21,935,422</b>	<b>3,477,442</b>	<b>3,726,930</b>	<b>5,391,516</b>	<b>3,133,681</b>	<b>3,487,070</b>
<b>Long-term assets</b>							
Grants, contributions and pledges receivable, net of current portion	-	956,126	-	-	-	-	-
Related party receivable, net of current portion	-	1,370,000	-	-	-	-	-
Related party note receivable, net of current portion	-	1,700,000	-	-	-	-	-
Note receivable	-	16,386,995	-	-	-	-	-
Deferred rent receivable	969,883	3,220,733	-	-	-	-	-
Assets limited as to use, net of current portion	2,703,825	4,312,364	-	-	-	-	-
Other long-term assets	8,400	58,578	13,106	-	-	-	-
Deferred financing costs	3,426,354	1,048,955	-	-	-	-	-
Property and equipment, net	54,806,559	81,609,221	158,273	283,049	224,884	159,473	117,012
<b>Total assets</b>	<b>65,448,543</b>	<b>132,598,394</b>	<b>3,648,820</b>	<b>4,009,980</b>	<b>5,616,400</b>	<b>3,293,154</b>	<b>3,604,082</b>
<b>Liabilities</b>							
Accounts payable and accrued expenses	1,247,071	1,235,994	50,336	87,149	68,063	328,955	33,635
Due to related parties	36,518	584,289	132,439	310,030	125,446	104,954	145,871
Deferred revenue	-	8,342,162	-	-	-	-	-
Due to beneficiary	-	-	1,000	-	500	-	-
Related party note payable	-	5,175,000	-	-	-	-	-
Long-term debt, current portion	320,100	9,603,170	-	-	-	-	20,000
<b>Total current liabilities</b>	<b>1,603,689</b>	<b>24,940,614</b>	<b>183,775</b>	<b>397,179</b>	<b>194,008</b>	<b>433,909</b>	<b>199,506</b>
Related party note payable, net of current portion	-	-	-	-	-	-	-
Long-term debt, net of current portion	51,898,925	76,966,075	-	-	-	-	20,000
Liability for asset retirement obligation	-	267,976	-	-	-	-	-
Deferred rent liability	28,941	31,731	-	161,522	845,568	-	818,946
<b>Total liabilities</b>	<b>53,531,554</b>	<b>102,206,396</b>	<b>183,775</b>	<b>558,701</b>	<b>1,039,576</b>	<b>433,909</b>	<b>1,038,452</b>
<b>Net assets</b>							
Net assets, unrestricted	11,916,989	22,803,862	3,458,995	3,426,253	4,576,824	2,859,246	2,558,680
Members' equity	-	-	-	-	-	-	-
Net assets, restricted	-	7,588,136	6,051	25,025	-	-	6,950
<b>Total net assets</b>	<b>11,916,989</b>	<b>30,391,998</b>	<b>3,465,046</b>	<b>3,451,278</b>	<b>4,576,824</b>	<b>2,859,246</b>	<b>2,565,630</b>
<b>Total liabilities and net assets</b>	<b>65,448,543</b>	<b>132,598,394</b>	<b>3,648,820</b>	<b>4,009,980</b>	<b>5,616,400</b>	<b>3,293,154</b>	<b>3,604,082</b>

**Alliance College-Ready Public Schools and Affiliates - 501(c)(3) Schools**  
**Combining Statements of Financial Position**  
**June 30, 2013**  
**(Unaudited)**

	Ouchi	CRAHS #5	CRAHS #7	Health Services	Media Arts	Environmental Science	Simon Technology Academy High School
<b>Current assets</b>							
Cash and cash equivalents	\$ 1,702,152	\$ 388,126	\$ -	\$ 278,854	\$ 296,840	\$ 470,585	\$ 405,726
Grants, contributions and pledges receivable, current portion	-	-	-	-	-	-	-
Related party receivable	-	-	-	-	-	-	-
Public funding receivables, current portion	1,636,374	1,730,992	-	1,308,098	888,056	1,183,836	990,828
Due from related parties	-	-	-	3,431	-	-	-
Related party note receivable, current portion	2,000,000	-	-	-	-	-	-
Assets limited as to use, current portion	4,000	-	-	-	-	-	-
Prepaid expenses and other current assets	7,872	8,842	-	10,581	16,008	47,062	17,351
<b>Total current assets</b>	<b>5,350,399</b>	<b>2,127,960</b>	<b>-</b>	<b>1,600,963</b>	<b>1,200,904</b>	<b>1,701,482</b>	<b>1,413,906</b>
Grants, contributions and pledges receivable, net of current portion	-	-	-	-	-	-	-
Related party receivable, net of current portion	-	-	-	-	-	-	-
Related party note receivable, net of current portion	-	-	-	-	-	-	-
Note receivable	-	-	-	-	-	-	-
Deferred rent receivable	14,821	-	-	-	-	-	-
Assets limited as to use, net of current portion	-	-	-	-	-	-	-
Other long-term assets	-	29,200	-	-	21,184	-	11,950
Deferred financing costs	-	-	-	-	-	-	-
Property and equipment, net	99,454	458,099	-	91,720	80,561	93,665	230,525
<b>Total assets</b>	<b>5,464,673</b>	<b>2,615,259</b>	<b>-</b>	<b>1,692,683</b>	<b>1,302,649</b>	<b>1,795,147</b>	<b>1,656,381</b>
<b>Liabilities</b>							
Accounts payable and accrued expenses	130,327	178,053	-	123,040	57,362	66,011	82,242
Due to related parties	105,689	130,032	-	97,378	68,004	97,829	83,698
Deferred revenue	-	-	-	-	-	-	-
Due to beneficiary	4,000	-	-	-	-	-	-
Related party note payable	-	350,000	-	-	-	570,000	725,000
Long-term debt, current portion	-	-	-	20,000	20,000	20,000	-
<b>Total current liabilities</b>	<b>240,016</b>	<b>658,086</b>	<b>-</b>	<b>240,418</b>	<b>145,366</b>	<b>753,840</b>	<b>890,940</b>
Related party note payable, net of current portion	-	-	-	-	-	-	-
Long-term debt, net of current portion	-	-	-	20,000	20,000	20,000	-
Liability for asset retirement obligation	-	-	-	-	-	-	-
Deferred rent liability	-	21,447	-	-	-	-	763,775
<b>Total liabilities</b>	<b>240,016</b>	<b>679,533</b>	<b>-</b>	<b>260,418</b>	<b>165,366</b>	<b>773,840</b>	<b>1,654,715</b>
<b>Net assets</b>							
Net assets, unrestricted	5,219,657	1,930,726	-	1,374,714	1,137,283	1,016,307	(41,176)
Members' equity	-	-	-	-	-	-	-
Net assets, restricted	5,000	5,000	-	57,552	-	5,000	42,842
<b>Total net assets</b>	<b>5,224,657</b>	<b>1,935,726</b>	<b>-</b>	<b>1,432,265</b>	<b>1,137,283</b>	<b>1,021,307</b>	<b>1,666</b>
<b>Total liabilities and net assets</b>	<b>5,464,673</b>	<b>2,615,259</b>	<b>-</b>	<b>1,692,683</b>	<b>1,302,649</b>	<b>1,795,147</b>	<b>1,656,381</b>

**Alliance College-Ready Public Schools and Affiliates - 501(c)(3) Schools**  
**Combining Statements of Financial Position**  
**June 30, 2013**  
**(Unaudited)**

	Tennenbaum Technology High School	Smidt Technology High School	CRAHS #16	Luskin Academy High School	Bloomfield Technology Academy High School	Merkin	Skirball
<b>Current assets</b>							
Cash and cash equivalents	\$ 446,762	\$ 645,792	\$ 212,719	\$ 383,166	\$ 250,000	\$ 1,056,018	\$ 966,185
Grants, contributions and pledges receivable, current portion	-	-	-	-	-	200	-
Related party receivable	-	-	-	-	-	-	-
Public funding receivables, current portion	1,032,792	331,519	433,499	781,182	-	1,237,553	1,031,046
Due from related parties	-	38,060	36,204	1,096	-	47,158	-
Related party note receivable, current portion	-	-	-	-	-	-	-
Assets limited as to use, current portion	-	-	-	-	-	4,000	-
Prepaid expenses and other current assets	4,566	16,374	2,292	4,185	-	16,497	4,769
<b>Total current assets</b>	<b>1,484,120</b>	<b>1,031,745</b>	<b>684,714</b>	<b>1,169,629</b>	<b>250,000</b>	<b>2,361,427</b>	<b>2,002,000</b>
Grants, contributions and pledges receivable, net of current portion	-	-	-	-	-	-	-
Related party receivable, net of current portion	-	-	-	-	-	-	-
Related party note receivable, net of current portion	-	-	-	-	-	-	-
Note receivable	-	-	-	-	-	-	-
Deferred rent receivable	-	-	-	-	-	-	7,060
Assets limited as to use, net of current portion	-	-	-	-	-	-	-
Other long-term assets	-	-	-	-	-	6,515	1,100
Deferred financing costs	-	-	-	-	-	-	-
Property and equipment, net	504,263	348,734	37,048	105,938	-	83,614	241,377
<b>Total assets</b>	<b>1,988,384</b>	<b>1,380,479</b>	<b>721,762</b>	<b>1,275,567</b>	<b>250,000</b>	<b>2,451,555</b>	<b>2,251,537</b>
<b>Liabilities</b>							
Accounts payable and accrued expenses	70,993	26,549	36,178	40,228	-	107,518	174,230
Due to related parties	105,263	9,276	-	69,317	21,918	71,217	39,392
Deferred revenue	-	-	-	-	-	-	-
Due to beneficiary	-	-	-	-	-	4,000	-
Related party note payable	-	300,000	300,000	1,050,000	-	-	-
Long-term debt, current portion	-	-	-	-	-	-	20,000
<b>Total current liabilities</b>	<b>176,257</b>	<b>335,825</b>	<b>336,178</b>	<b>1,159,545</b>	<b>21,918</b>	<b>182,734</b>	<b>233,621</b>
Related party note payable, net of current portion	1,000,000	700,000	-	-	-	-	-
Long-term debt, net of current portion	-	-	-	-	-	-	20,000
Liability for asset retirement obligation	-	-	-	-	-	-	-
Deferred rent liability	-	789,210	-	-	-	-	-
<b>Total liabilities</b>	<b>1,176,257</b>	<b>1,825,035</b>	<b>336,178</b>	<b>1,159,545</b>	<b>21,918</b>	<b>182,734</b>	<b>253,621</b>
<b>Net assets</b>							
Net assets, unrestricted	788,583	(444,557)	135,584	(133,978)	-	2,221,261	1,997,915
Members' equity	-	-	-	-	-	-	-
Net assets, restricted	23,544	-	250,000	250,000	228,082	47,560	-
<b>Total net assets</b>	<b>812,127</b>	<b>(444,557)</b>	<b>385,584</b>	<b>116,022</b>	<b>228,082</b>	<b>2,268,821</b>	<b>1,997,915</b>
<b>Total liabilities and net assets</b>	<b>1,988,384</b>	<b>1,380,479</b>	<b>721,762</b>	<b>1,275,567</b>	<b>250,000</b>	<b>2,451,555</b>	<b>2,251,537</b>

**Alliance College-Ready Public Schools and Affiliates - 501(c)(3) Schools**  
**Combining Statements of Financial Position**  
**June 30, 2013**  
**(Unaudited)**

	O'Donovan	CRMA #4	CRMA #5	CRMA #7	CRMA #8	Eliminations	Combined Total
<b>Current assets</b>							
Cash and cash equivalents	\$ 848,442	\$ 1,295,094	\$ 287,699	\$ 464,234	\$ -	\$ -	\$ 22,383,412
Grants, contributions and pledges receivable, current portion	-	-	-	-	250,000	-	1,143,555
Related party receivable	-	-	-	-	-	-	1,400,750
Public funding receivables, current portion	1,139,453	1,300,820	590,404	951,473	-	-	25,251,707
Due from related parties	224,908	2,977	262,616	-	-	(2,517,052)	-
Related party note receivable, current portion	-	-	-	-	-	(9,145,000)	-
Assets limited as to use, current portion	-	-	-	-	-	-	12,072,904
Prepaid expenses and other current assets	28,307	117,766	5,729	5,763	-	-	926,137
<b>Total current assets</b>	<b>2,241,109</b>	<b>2,716,657</b>	<b>1,146,448</b>	<b>1,421,470</b>	<b>250,000</b>	<b>(11,662,052)</b>	<b>63,178,464</b>
Grants, contributions and pledges receivable, net of current portion	-	-	-	-	-	-	956,126
Related party receivable, net of current portion	-	-	-	-	-	-	1,370,000
Related party note receivable, net of current portion	-	-	-	-	-	(1,700,000)	-
Note receivable	-	-	-	-	-	-	16,386,995
Deferred rent receivable	7,060	-	-	-	-	(3,593,319)	626,237
Assets limited as to use, net of current portion	-	-	-	-	-	-	7,016,189
Other long-term assets	-	9,250	11,653	-	-	-	170,936
Deferred financing costs	-	-	-	-	-	(602,899)	3,872,410
Property and equipment, net	176,934	19,048	322,400	103,734	-	-	140,355,587
<b>Total assets</b>	<b>2,425,104</b>	<b>2,744,955</b>	<b>1,480,502</b>	<b>1,525,204</b>	<b>250,000</b>	<b>(17,558,269)</b>	<b>233,932,945</b>
<b>Liabilities</b>							
Accounts payable and accrued expenses	33,381	77,928	46,828	80,016	-	-	4,382,087
Due to related parties	6,728	75,207	8,196	70,864	17,500	(2,517,052)	-
Deferred revenue	-	-	-	-	-	-	8,342,162
Due to beneficiary	-	-	-	-	-	-	9,500
Related party note payable	-	-	475,000	500,000	-	(9,145,000)	300,000
Long-term debt, current portion	20,000	20,000	20,000	-	-	-	10,083,270
<b>Total current liabilities</b>	<b>60,109</b>	<b>173,135</b>	<b>550,023</b>	<b>650,880</b>	<b>17,500</b>	<b>(11,662,052)</b>	<b>23,117,019</b>
Related party note payable, net of current portion	-	-	-	-	-	(1,700,000)	-
Long-term debt, net of current portion	20,000	20,000	20,000	-	-	-	129,025,000
Liability for asset retirement obligation	-	-	-	-	-	-	267,976
Deferred rent liability	-	34,024	159,226	-	-	(3,593,319)	61,071
<b>Total liabilities</b>	<b>80,109</b>	<b>227,159</b>	<b>729,249</b>	<b>650,880</b>	<b>17,500</b>	<b>(16,955,371)</b>	<b>152,471,065</b>
<b>Net assets</b>							
Net assets, unrestricted	1,984,503	2,502,234	751,253	874,324	232,500	(602,899)	72,545,084
Members' equity	-	-	-	-	-	-	-
Net assets, restricted	360,492	15,562	-	-	-	-	8,916,796
<b>Total net assets</b>	<b>2,344,995</b>	<b>2,517,796</b>	<b>751,253</b>	<b>874,324</b>	<b>232,500</b>	<b>(602,899)</b>	<b>81,461,879</b>
<b>Total liabilities and net assets</b>	<b>2,425,104</b>	<b>2,744,955</b>	<b>1,480,502</b>	<b>1,525,204</b>	<b>250,000</b>	<b>(17,558,269)</b>	<b>233,932,945</b>

**Alliance College-Ready Public Schools and Affiliates - 501(c)(3) Schools**  
**Combining Statements of Activities**  
**For the year ended June 30, 2013**  
**(Unaudited)**

	Consolidated Alliance Facilities Corporation	Consolidated Alliance College-Ready Public Schools	Gertz	Burton Tech	Collins Family	Mohan	MASS
Revenue and support							
Private grants and contributions	\$ 6,159,900	\$ 7,476,135	\$ 5,187	\$ 213,297	\$ 61	\$ 11,200	\$ 1,250
Management fees	-	6,379,300	-	-	-	-	-
Federal revenue	-	2,152,869	770,198	722,754	661,175	590,850	604,411
State revenue	-	309,942	3,691,956	3,957,586	4,399,275	2,754,368	4,178,491
Local revenue	-	-	711,809	796,120	820,616	614,565	823,191
Other school revenue	-	-	46,026	60,520	51,075	30,576	120,453
Rent income	4,232,605	7,019,916	-	-	-	-	-
Interest and other income	432	1,050,815	16,587	22,675	21,642	50,178	22,929
<b>Total revenue and support</b>	<b>10,392,937</b>	<b>24,388,977</b>	<b>5,241,762</b>	<b>5,772,951</b>	<b>5,953,844</b>	<b>4,051,737</b>	<b>5,750,725</b>
Expenses							
Salaries	-	5,393,571	2,169,686	2,294,815	2,285,387	1,980,994	2,229,802
Benefits	-	917,074	516,204	551,984	550,096	483,300	496,026
Books and supplies	605	260,504	507,855	666,892	477,566	458,252	493,188
Subagreement services	1,374	347,592	72,486	144,272	71,935	28,633	120,668
Professional/consulting services	18,939	1,656,924	437,852	511,057	537,172	355,938	502,928
Facilities, repairs and other leases	33,073	709,415	935,378	881,185	809,584	270,512	979,689
Operations and housekeeping	235,521	9,370,139	171,613	267,130	260,988	171,706	282,642
Depreciation expense	757,185	2,212,661	30,232	240,781	68,132	50,124	52,529
Interest	2,810,763	5,199,172	-	-	-	-	287
<b>Total expenses</b>	<b>3,857,461</b>	<b>26,067,051</b>	<b>4,841,306</b>	<b>5,558,116</b>	<b>5,060,861</b>	<b>3,799,461</b>	<b>5,157,760</b>
Change in net assets	6,535,476	(1,678,074)	400,456	214,836	892,983	252,276	592,965
Total beginning net assets	5,381,513	32,070,072	3,064,590	3,236,443	3,683,841	2,606,970	1,972,665
Ending net assets	11,916,989	30,391,998	3,465,046	3,451,278	4,576,824	2,859,246	2,565,630

**Alliance College-Ready Public Schools and Affiliates - 501(c)(3) Schools**  
**Combining Statements of Activities**  
**For the year ended June 30, 2013**  
**(Unaudited)**

	Ouchi	CRAHS #5	CRAHS #7	Health Services	Media Arts	Environmental Science	Simon Tech
Revenue and support							
Private grants and contributions	\$ 5,000	\$ 8,454	\$ -	\$ -	\$ -	\$ 17,895	\$ 171,685
Management fees	-	-	-	-	-	-	-
Federal revenue	634,735	1,179,406	3,448	521,658	404,882	670,665	472,983
State revenue	3,866,117	3,683,920	89,183	2,748,027	2,148,506	3,279,149	2,292,050
Local revenue	738,668	818,459	8	629,676	444,454	727,981	540,236
Other school revenue	66,855	49,127	1,166	52,652	64,520	78,956	8,558
Rent income	-	-	-	-	-	-	-
Interest and other income	38,390	19,082	151	15,929	15,060	24,887	18,429
<b>Total revenue and support</b>	<b>5,349,765</b>	<b>5,758,448</b>	<b>93,955</b>	<b>3,967,942</b>	<b>3,077,422</b>	<b>4,799,532</b>	<b>3,503,941</b>
Expenses							
Salaries	1,822,366	2,776,499	6,488	1,801,006	1,227,587	2,132,983	1,374,310
Benefits	416,879	633,815	5,232	390,966	263,158	479,220	304,123
Books and supplies	608,371	724,258	(862)	527,774	385,384	481,864	394,310
Subagreement services	115,659	323,179	-	64,071	55,812	17,709	114,611
Professional/consulting services	446,336	630,175	13,823	366,972	268,218	437,000	361,291
Facilities, repairs and other leases	805,972	751,418	(2,243)	147,833	330,582	510,104	601,951
Operations and housekeeping	182,714	298,500	559,661	213,560	149,980	168,634	195,611
Depreciation expense	28,230	114,015	-	46,974	41,605	51,831	183,021
Interest	-	7	729	336	798	2,734	1,479
<b>Total expenses</b>	<b>4,426,526</b>	<b>6,251,867</b>	<b>582,828</b>	<b>3,559,491</b>	<b>2,723,123</b>	<b>4,282,079</b>	<b>3,530,708</b>
Change in net assets	923,240	(493,418)	(488,873)	408,451	354,298	517,453	(26,767)
<b>Total beginning net assets</b>	<b>4,301,417</b>	<b>2,429,145</b>	<b>488,873</b>	<b>1,023,814</b>	<b>782,984</b>	<b>503,854</b>	<b>28,433</b>
<b>Ending net assets</b>	<b>5,224,657</b>	<b>1,935,726</b>	<b>-</b>	<b>1,432,265</b>	<b>1,137,283</b>	<b>1,021,307</b>	<b>1,666</b>

**Alliance College-Ready Public Schools and Affiliates - 501(c)(3) Schools**  
**Combining Statements of Activities**  
**For the year ended June 30, 2013**  
**(Unaudited)**

	Tennenbaum Tech	Smidt Tech	CRAHS #16	Luskin Academy	Bloomfield Tech	Merkin	Skirball
Revenue and support							
Private grants and contributions	\$ 20,000	\$ 20,000	\$ -	\$ 211,367	\$ 250,000	\$ 121,000	\$ 221,005
Management fees	-	-	-	-	-	-	-
Federal revenue	474,225	598,158	567,454	629,599	-	823,525	602,275
State revenue	2,402,675	895,104	1,040,657	2,261,069	-	3,025,542	2,904,865
Local revenue	542,760	198,165	247,902	551,964	-	637,220	601,234
Other school revenue	23,550	8,781	198	17,569	-	16,241	-
Rent income	-	-	-	-	-	-	-
Interest and other income	7,003	3,063	9,329	21,204	-	8,060	308
<b>Total revenue and support</b>	<b>3,470,214</b>	<b>1,723,271</b>	<b>1,865,540</b>	<b>3,692,771</b>	<b>250,000</b>	<b>4,631,589</b>	<b>4,329,686</b>
Expenses							
Salaries	1,334,210	643,604	828,440	1,646,139	-	1,600,448	1,440,366
Benefits	290,783	142,840	179,421	379,009	-	350,273	340,337
Books and supplies	295,072	199,754	180,927	301,124	-	614,712	460,430
Subagreement services	17,946	13,870	51,047	88,283	-	132,265	58,869
Professional/consulting services	386,326	197,685	190,895	404,161	20,968	505,854	597,890
Facilities, repairs and other leases	169,037	1,007,425	85,364	745,873	-	666,898	572,982
Operations and housekeeping	124,701	89,252	122,706	235,333	870	272,058	205,963
Depreciation expense	220,045	95,840	4,284	7,117	-	31,646	84,074
Interest	-	1,257	551	1,352	-	-	281
<b>Total expenses</b>	<b>2,838,120</b>	<b>2,391,526</b>	<b>1,643,636</b>	<b>3,808,391</b>	<b>21,838</b>	<b>4,174,154</b>	<b>3,761,191</b>
Change in net assets	632,094	(668,255)	221,905	(115,620)	228,162	457,435	568,495
Total beginning net assets	180,033	223,699	163,679	231,642	(80)	1,811,386	1,429,421
Ending net assets	812,127	(444,557)	385,584	116,022	228,082	2,268,821	1,997,915

**Alliance College-Ready Public Schools and Affiliates - 501(c)(3) Schools**  
**Combining Statements of Activities**  
**For the year ended June 30, 2013**  
**(Unaudited)**

	O'Donovan	CRMA #4	CRMA #5	CRMA #7	CRMA #8	Eliminations	Combined Total
Revenue and support							
Private grants and contributions	\$ 310,036	\$ 250	\$ 335,000	\$ 97	\$ 250,000	\$ (7,853,757)	\$ 7,955,060
Management fees	-	-	-	-	-	(6,379,300)	-
Federal revenue	772,013	639,759	559,024	519,182	-	-	15,575,247
State revenue	2,905,413	3,519,240	1,595,769	2,644,726	-	-	60,593,628
Local revenue	619,173	683,285	384,501	588,464	-	-	12,720,450
Other school revenue	24,680	28,713	7,877	4,164	-	-	762,258
Rent income	-	-	-	-	-	(10,712,334.39)	540,187
Interest and other income	32,535	29,999	8,108	18,054	-	(26,690)	1,428,160
<b>Total revenue and support</b>	<b>4,663,850</b>	<b>4,901,247</b>	<b>2,890,279</b>	<b>3,774,686</b>	<b>250,000</b>	<b>(24,972,082)</b>	<b>99,574,989</b>
Expenses							
Salaries	1,369,618	1,355,666	861,590	1,259,477	-	-	39,835,050
Benefits	299,562	311,052	209,857	276,846	-	-	8,788,058
Books and supplies	495,837	453,430	237,601	353,829	-	(600)	9,578,079
Subagreement services	129,644	96,055	142,017	108,631	-	-	2,316,626
Professional/consulting services	507,572	505,571	407,693	436,115	17,500	(6,379,300)	4,343,555
Facilities, repairs and other leases	602,224	737,733	697,401	658,495	-	(10,712,334)	2,995,551
Operations and housekeeping	163,656	179,777	125,014	176,645	-	(7,853,757)	6,370,618
Depreciation expense	86,490	21,218	110,712	58,343	-	(28,261)	4,568,829
Interest	357	410	1,125	1,691	-	(26,090)	7,997,237
<b>Total expenses</b>	<b>3,654,959</b>	<b>3,660,911</b>	<b>2,793,011</b>	<b>3,330,072</b>	<b>17,500</b>	<b>(25,000,343)</b>	<b>86,793,603</b>
Change in net assets	1,008,891	1,240,336	97,268	444,614	232,500	28,261	12,781,386
Total beginning net assets	1,336,103	1,277,460	653,985	429,710	-	(631,159)	68,680,493
Ending net assets	2,344,995	2,517,796	751,253	874,324	232,500	(602,899)	81,461,879

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL BOND DOCUMENTS

*The following is a summary of certain provisions of the Indenture, the Loan Agreement, the Deed of Trust and the Lease which are not described elsewhere in this Limited Offering Memorandum. **These summaries do not purport to be complete or definitive 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 Limited Offering Memorandum have the meanings set forth in the Indenture.*

#### Definitions

The following are definitions of certain terms used in the Indenture and the Loan Agreement applicable to the Bonds.

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

“Accredited Investor” means an accredited investor as defined in Regulation D of the Securities Act of 1933.

“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.

“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.

“Alliance” means Alliance for College-Ready Public Schools, an operator of a charter school subject to the Charter School Law and organized as a California nonprofit public benefit corporation.

“Approved Institutional Buyer” shall have the meaning given to a “qualified institutional buyer” under Rule 144A of the Securities Act of 1933.

“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 reference to the Book Entry Only System, 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 provisions of the Indenture relating to continuing disclosure, 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.

“Bond Purchase Agreement” means the Bond Purchase Agreement, dated October 9, 2013, by and among the Underwriter, the Authority, the Borrower, the Treasurer of the State, as agent for sale and approved by the Lessee.

“Bond Reserve Subaccount” means the Bond Reserve Subaccount of the Reserve Account established by the Trustee pursuant to the Indenture.

“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 2023 Union LLC, a California limited liability company, whose sole member is the Sole Member, its successors and assigns.

“Borrower Documents” means the Loan Agreement, the Intercept Notice, the Bond Purchase Agreement, the Borrower Resolution, the Lease and the Deed of Trust.

“Borrower Resolution” means the resolution or other authorizing action adopted by the Sole Member on behalf of the Borrower authorizing the Loan and execution and delivery of the Borrower Documents.

“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.

“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 by the Authority 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 on its behalf by the Sole Member’s Chief Financial Officer, President 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.

“Closing Date” shall mean October 24, 2013, the date of original issuance and delivery of the Bonds.

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

“Completion” means satisfaction of all of the conditions to completion of the Project as described in the Loan Agreement including delivery of the Completion Certificate pursuant to the Loan Agreement.

“Completion Certificate” means Completion Certificate delivered pursuant to the Loan Agreement.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of October 1, 2013, among the Lessee, 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 bond counsel, special counsel, disclosure counsel and Trustee’s 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 Outstanding Bonds, (b) that portion of the principal amount of all Outstanding Bonds maturing on each principal payment date during such period, and (c) that portion of the principal amount of all Outstanding Bonds 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).

“Deed of Trust” means that certain Deed of Trust with Assignment of Rents, Security Agreement and Fixture Filing, dated as of October 1, 2013, executed as a counterpart to the Deed of Trust by the Borrower, as trustor, in favor of Fidelity National Title Company, as deed of trust trustee thereunder, creating a lien on the Facility located in the County of Los Angeles that Borrower owns in fee for the benefit of the Trustee (as assignee of the Authority), as trustee for the benefit of 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.

“Direct Costs” means the costs of the land, the improvements, the personal property, and all labor, materials, fixtures, machinery and equipment required to acquire, construct, equip and complete the construction and improvements to the Facility.

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

“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 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 (provided that the Trustee will be entitled to rely upon any Request of the Borrower as conclusive certification to the Trustee that the investments described therein are so authorized under the laws of the State of California) 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 rated by S&P, Fitch and Moody’s in one of the three 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 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 in one of the two 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 a rating by S&P of AA-Am-G, AAA-m, or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

(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 that are fully insured by FDIC, including BIF and SAIF;

(10) commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P;

(11) federal funds or bankers acceptances with a maximum term of one year of any bank which has 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;

(12) 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;

(13) the State of California's Pooled Money Investment Account;

(14) the State of California's Local Agency Investment Fund; and

(15) obligations of a bank or other financial institution rated at least "Aa3" by Moody's or "AA-" by S&P.

"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 specified in the Indenture.

"Facility" means all the real property at 2023 South Union Avenue, Los Angeles, CA 90007 described further in the Lease, together with the improvements thereof.

"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 shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority.

“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).

“Grant-Funded Reserve Eligible Securities” means:

- (1) obligations issued or guaranteed by the United States Government;
- (2) obligations of agencies or instrumentalities of the United States, including government-sponsored enterprises;
- (3) obligations issued by or guaranteed by any state, provided such obligations are rated in the two highest rating categories of Moody’s Investor Service, Standard and Poor’s Corporation or Fitch Ratings;
- (4) commercial paper, repurchase agreements, guaranteed investment contracts or other similar instruments issued by corporations that are organized and operating within the United States having assets in excess of \$500 million and having a short-term rating in the highest rating category of Moody’s Investor Service, Standard and Poor’s Corporation or Fitch Ratings, and a long-term rating in one of the two highest rating categories;
- (5) money market funds that invest solely in United States Government securities or obligations of agencies or instrumentalities of the United States, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;
- (6) money market fund deposits or certificates of deposit made in federally insured, regulated credit unions or banks, to the extent fully insured or collateralized with investments under categories (1) through (5), including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee; and
- (7) such other investment securities as the Secretary may determine are prudent investments that comply with applicable law and regulations.

“Grant-Funded Reserve Subaccount” means the Reserve Subaccount of the Reserve Account established by the Trustee pursuant to the Indenture.

“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; provided, however, that Gross Revenues shall not include any income or revenue derived from the ownership, operation or disposition of the Non-Secured Projects.

“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.

“Indenture” means the indenture, dated as of October 1, 2013, 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 of the Indenture.

“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 any Borrower or any affiliate thereof and (3) is not connected with any Borrower or any affiliate thereof as an officer, employee, promoter, underwriter, trustee, partner, director or Person performing similar functions, and designated by the applicable Borrower, qualified to pass upon questions relating to the financial affairs of facilities of the type or types operated by the applicable Borrower and having a favorable reputation for skill and experience in the financial affairs of such facilities.

“Indirect Costs” means all title insurance premiums, survey charges, engineering fees, architectural fees, real estate taxes, appraisal costs, premiums for insurance, marketing, advertising and leasing costs, brokerage commissions, legal fees, accounting fees, overhead and administrative costs, and all other expenses as shown on the Development Budget that are expenditures relating to the Project and are not Direct Costs.

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

“Intercept Notice” means any notice from any School to the State Controller, pursuant to Section 17199.4(a)(1) and (4) of the Education Code (or any successor provision), 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 set forth in the applicable Lease, as the same may be amended, supplemented or restated from time to time.

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

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

“Interest Payment Date” means each January 1 and July 1, commencing January 1, 2014.

“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 of the Borrower which would otherwise be considered Outstanding. The trustee of such deposit may be any trustee or escrow agent authorized to act in such capacity.

“Lease” means that certain Lease Agreement, dated as of October 1, 2013, by and between the Borrower as Lessor and the Lessee as lessee.

“Lessee” means the Alliance Gertz-Ressler / Richard Merkin 6-12 Complex, a California nonprofit public benefit corporation, its successor and assigns.

“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 October 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” has the meaning given such term in the Loan Agreement.

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

“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 Borrower.

“Non-Secured Projects” means clause (1) of the definition of the Project provided in Exhibit A of the Loan Agreement.

“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 shall 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 shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Payments” means (i) all moneys (except any money received to be used for the payment of Administrative Fees and Expenses) received by the Trustee with respect to the Intercept, (ii) all moneys, if any, received by the Trustee directly from, or on behalf of, the Borrower, pursuant to the Loan Agreement (excluding Additional Payments), 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 any Facility, 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; and

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

“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.

“Plans and Specifications” means the plans and specifications for any portion of the Facility prepared by the Borrower, as the same may be amended, modified, or supplemented in accordance with the terms of the Indenture.

“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 The Bank of New York Mellon Trust Company, N.A., provided however, that for purposes of presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“Principal Payment Date” means the principal and Mandatory Sinking Account Payment dates for the Bonds, which dates occur on July 1 of each year commencing July 1, 2014.

“Project” has the meaning given to such term in the Loan Agreement.

“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.

“Punchlist Items” means any items necessary at the time of the issuance of a temporary use and occupancy permit to complete the Project in accordance with the Plans and Specifications, or required for the issuance of a final certificate of occupancy or its equivalent.

“Rating Agency” means at any time any nationally recognized 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.

“Rental Payments” means the amounts payable pursuant to the Lease by the School to the Borrower for the use and occupancy of the Facility, excluding Expenses (as defined in the Lease).

“Repair and Replacement Fund” means the fund by such name established pursuant to the Indenture.

“Repair and Replacement Fund Requirement” means \$200,000.

“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 shall be equal to the least of (a) ten percent (10%) of the proceeds of the Bonds; (b) maximum annual debt service with respect to the Bonds Outstanding, (c) one hundred twenty-five percent (125%) of average annual debt service with respect to the Bonds, or (d) for the last Bond Year only, the total debt service with respect to the Bonds Outstanding. Annual debt service and average annual debt service, for purposes of this definition, shall be calculated on the basis of twelve-month periods ending on July 1 of any year in which Bonds are Outstanding.

“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.

“Retained Rights” means Authority right to payment of the Administrative Fees and Expenses, any Additional Payments, any right to be indemnified, held harmless or defended, any right to receive information, reports, certifications or other documents and any right to notice, consent or inspection hereunder or under the Loan Agreement.

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

“S&P” means Standard & Poor’s Ratings Services, 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.

“S&P Surveillance Fee” means \$3,000 per annum, payable on July 1 of each year, commencing July 1, 2014.

“School” means Alliance Gertz-Ressler/Richard Merkin 6-12 Complex, and the successors thereto.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attention. 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.

“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 Payments to be applied to the retirement of such Bonds on and prior to the stated maturity date thereof.

“Sole Member” means Alliance for College-Ready Public Schools Facilities Corporation, a California nonprofit public benefit corporation, its successors and assigns.

“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 School Facility Revenue Bonds (Alliance for College-Ready Public Schools – 2023 Union LLC Project), 2013 Series B (Taxable), authorized and issued pursuant to Article II of this Indenture and any bonds issued in exchange or replacement thereof in accordance with this Indenture.

“Tax Certificate” means the Tax Certificate and Agreement 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 School Facility Revenue Bonds (Alliance for College-Ready Public Schools – 2023 Union LLC Project), 2013 Series A (Tax-Exempt), authorized and issued pursuant to Article II of this Indenture and any bonds issued in exchange or replacement thereof in accordance with this Indenture.

“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 The Bank of New York Mellon Trust Company, N.A., or the successor as Trustee as provided in the Indenture.

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

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## 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, sufficient 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 of the Trustee, 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 summarized in 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; Establishment and Application of Funds and Accounts**

#### *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, 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 (other than the Rebate Fund) established pursuant to the Indenture. Said pledge will constitute a lien on and security interest in such assets and will attach and be valid and binding from and after delivery of the Bonds, without any physical delivery thereof or further act.

(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 Retained Rights). The Trustee will be entitled to and will receive all of such assigned Payments, and any such 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 shall 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 by the Indenture 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 of the State, or any political subdivision thereof, and are not and shall not be deemed to be a pledge of the faith and credit of the State, or any political subdivision thereof, other than the Authority, which shall 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 for the Bonds 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 funds available to the Lessee 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 “*Covenants–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 the provisions of the Indenture summarized under this caption “*–Rebate Fund,*” 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, which direction will comply with the requirements of the Tax Certificate, the Trustee will invest all amounts held in the Rebate Fund in Eligible Securities. 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*," the provisions summarized under the caption "*Covenants—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. The Trustee will accept moneys from the Borrower for deposit in the Project Fund from time to time.

Upon completion of the Project, the Borrower will deliver a Completion Certificate to the Trustee and make the final requisition of funds from the Project Fund. Any amounts thereafter remaining in such Project Fund will be transferred by the Trustee, at the direction of the Borrower (i) to the Redemption Fund for the redemption of Bonds pursuant to the Indenture, or (ii) to the Interest Account for payment of interest on the Bonds, or (iii) to the Borrower upon delivery to the Trustee of (A) a Completion Certificate, (B) a written request of the Borrower and (C) delivery of an Opinion of Bond Counsel to the effect that such transfer would not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds. Upon such transfer, the Project Fund will be closed.

*Establishment and Application of Costs of Issuance Fund; Insurance and Condemnation Proceeds 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 costs 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.

(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.

*Establishment and Application of the Repair and Replacement Fund.*

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

(b) The Authority, by the Indenture, authorizes and directs the Trustee to withdraw funds from the Repair and Replacement Fund to pay for capital items not budgeted as ordinary maintenance and repair costs related to the Facility.

(c) Moneys in the Repair and Replacement 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. The Trustee may conclusively rely upon such Requisition and shall have no responsibility or duty to investigate any of the matters set forth therein.

(d) When (i) the amount of 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 Repair and Replacement Fund, and (ii) all other amounts owed under the Loan Agreement and the Indenture will have been paid, moneys held in the Repair and Replacement Fund may be deposited into the Revenue Fund and credited against payments of Loan Repayments required under the Loan Agreement.

*Investment of Moneys in Funds and Accounts.*

Except as otherwise provided in provisions of the Indenture summarized under “*Defeasance–Deposit of Money or Securities with Trustee*” below, all moneys in any of the funds, accounts and subaccounts established pursuant to the Indenture, except the Grant-Funded Reserve Subaccount of the Reserve Account, 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; provided, however, that any such investment will be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee will have received a Request of the Borrower specifying a specific money market fund and, if no such Request of the Borrower is so received, the Trustee will hold such moneys uninvested.

All moneys in the Grant-Funded Reserve Subaccount of the Reserve Account will be invested by the Trustee solely in such Grant-Funded Reserve Eligible Securities 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 (5) of the definition of the term “Grant-Funded Reserve Eligible Securities”; provided, however, that any such investment will be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee will have received a Request of the Borrower specifying a specific money market fund and, if no such Request of the Borrower is so received, the Trustee will hold such moneys uninvested.

All interest, profits and other income received from the investment of moneys will be deposited in the Revenue Fund; provided, however, all interest, profits and other income received from the investment of moneys in the Bond Reserve Subaccount and the Grant-Funded Reserve Subaccount of the Reserve Account shall remain in such Subaccount.

Subject to the provisions of the Indenture summarized under “*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 by the Indenture, 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.

The Borrower acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Borrower the right to receive brokerage confirmations of security transactions as they occur, the Borrower specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Borrower periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

## **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.

*Accounting Records and Financial Statements.* 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.

*Other Covenants; Amendment of the Loan Agreement and the Lease.*

(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 the Lease, 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 (1) it has received a written representation from the Borrower to the effect that such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds; provided that, if an Event of Default described in the Indenture has occurred and is continuing, the Trustee rather than the Borrower 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), or (2) 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 Loan Repayments payable to the Authority, or extend the time for making such payments, without the written consent of all of the Holders of the Bonds then Outstanding.

*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 pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5), and the Authority will have no liability to the Holders of the Bonds or any other person with respect to Securities and Exchange Commission Rule 15c2-12. The Trustee covenants and agrees that, subject to the provisions of the Indenture, it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement and provisions of the Loan Agreement related to continuing disclosure applicable to it. Notwithstanding any other provision of the Indenture, failure of the Borrower or the Trustee 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 (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% 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 expenses 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 provisions of the Loan Agreement or, as to any Bondholder or Beneficial Owner, to cause the Trustee to comply with its obligations under this Section. For purposes of this paragraph, "Beneficial Owner" means any person which (1) 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 (2) is treated as the owner of any Bonds for federal income tax purposes.

*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 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 Interest Payment Date, each Principal Payment Date, or 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 shall, within ten (10) business days thereof, notify the Authority and the Borrower of the receipt of such payment.

**Events of Default; Remedies on 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, the Lease 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 to the provisions of the Indenture summarized under the caption “Pledge and Assignment–*Pledge and Assignment*” above) 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 summarized in the paragraphs under “–*Institution of Legal Proceedings by Trustee*” 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 provisions of the Indenture governing Events of Default and remedies on 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 by the Indenture 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 provided in the Indenture, 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 the foregoing provisions of this paragraph or the immediately preceding paragraph or any other provision of the Indenture.

*Authority Retained Rights.* No provision of the Indenture relating to default will limit in any respect the right of the Authority to enforce or waive any of its Retained Rights under the Loan Agreement.

## **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 the Borrower (unless an Event of Default will have occurred and then be continuing) or at any time 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 (unless an Event of Default has occurred and is continuing, at which time consent of the Borrower will not be required) and Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing), 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 appoint, with the written consent of the Borrower (unless an Event of Default has occurred and is continuing, at which time consent of the Borrower will not be required) and Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing), 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 subsection, the Authority 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. If the Authority fails to mail such notice within thirty (30) days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the Authority.

(e) Any Trustee appointed under the provisions of the Indenture will be a national banking association, a trust institution 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, the Trustee will resign immediately in the manner and with the effect specified in the Indenture.

(f) Notwithstanding anything contained in the Indenture or in the Deed of Trust to the contrary, upon the occurrence and continuance of an Event of Default, before taking any foreclosure

action or any action which may subject the Trustee to liability under any Environmental Law, the Trustee may require that a satisfactory indemnity bond, indemnity or environmental impairment insurance be furnished for the payment or reimbursement of all expenses to which it may be put and to protect it against all liability resulting from any claims, judgments, damages, losses, penalties, fines, liabilities (including strict liability) and expenses which may result from such foreclosure or other action. The term "Environmental Laws" shall mean all federal, state and local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances and codes relating to the protection of the environment or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and the rules, regulations, policies, guidelines, interpretations, decisions, orders and directives of federal, state and local governmental agencies and authorities with respect thereto. The term "Hazardous Substances" shall mean any chemical, substance or material classified or designated as hazardous, toxic or radioactive, or other similar term, and now or hereafter regulated under any Environmental Law, including without limitation, asbestos, petroleum and hydrocarbon products. The Trustee shall not be required to take any foreclosure action if the approval of a government regulator shall be a condition precedent to taking such action.

*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 reasonable security or indemnity 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 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.

(i) The Trustee agrees to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee will have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the Borrower elect to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions are deemed controlling. The Trustee will not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Borrower agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(j) The Trustee will not be liable to the parties to the Indenture or deemed in breach or default hereunder if and to the extent its performance under the Indenture is prevented by reason of force majeure. The term "force majeure" means an occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care. Force majeure will include but not be limited to acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

(k) The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents, affiliates, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture, and the Trustee will not be answerable for the acts or omissions of any such attorney, agent, or receiver selected by it with reasonable care.

(l) The Trustee will have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of these Bonds.

(m) The Trustee will not be required to review or inspect, and will not be deemed to have notice of, the contents of any financial statement delivered to the Trustee, it being expressly understood that the Trustee shall only receive and hold such documents as a repository for examination and copying by any Holder at such Holder's expense during business hours on Business Days with reasonable prior notice.

(n) Notwithstanding anything contained in the Indenture or in the Deed of Trust to the contrary, upon the occurrence and continuance of an Event of Default, before taking any foreclosure action or any action which may subject the Trustee to liability under any Environmental Regulation, the Trustee may require that a satisfactory indemnity bond, indemnity or environmental impairment insurance be furnished for the payment or reimbursement of all expenses to which it may be put and to protect it against all liability resulting from any claims, judgments, damages, losses, penalties, fines, liabilities (including strict liability) and expenses which may result from such foreclosure or other action. The Trustee will not be required to take any foreclosure action if the approval of a government regulator will be a condition precedent to taking such action.

(o) Whether or not therein expressly so provided, every provision of the Indenture, the Loan Agreement, the Deed of Trust or related documents relating to the conduct or affecting the liability of or affording protection to the Trustee will be subject to the provisions of the Indenture relating to the Trustee.

*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 (solely from payments received from the Borrower) will from time to time, subject to any agreement between the Authority and the Trustee then in force, pay to the Trustee compensation for its services rendered by it in the execution of the trusts created by the Indenture and in the exercise and performance of any of the powers and duties

under the Indenture of the Trustee, which compensation may not be limited by any provision of law with respect to the compensation of a trustee of an express trust, and the Authority will reimburse the Trustee for all its advances (with interest on such advances at the maximum rate allowed by law) and expenditures, including but not limited to advances to and fees and expenses of independent accountants, counsel (including in-house counsel to the extent not duplicative of other counsel's work) and engineers or other experts employed by it, and reasonably required, in the exercise and performance of its powers and duties under the Indenture. The Authority covenants and agrees to indemnify the Trustee (solely from Payments received from the Borrower) against any loss, expense and liability (other than those which are due to the Trustee's negligence or default) 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 under this Section will survive resignation or removal of the Trustee under the Indenture and payment of the Bonds and discharge of the Indenture.

### **Modification of 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 to the Indenture, 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 the interest on the Tax-Exempt Bonds to be included as gross income for federal income tax purposes and that such amendment or modification is permitted by the Indenture:

(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 in the Indenture reserved to or conferred upon the Authority; provided such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds;

(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 the Indenture; provided such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds;

(c) to modify, amend or supplement the Indenture or any indenture supplemental to the Indenture in such manner as to permit the qualification of the Indenture or 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 to the Indenture such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939, as amended, or similar federal statute; provided such amendment or modification will not materially and adversely affect the interests of the Holders of the Bonds;

(d) in connection with an amendment of any 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 agreement;

(e) to modify or amend the Project and the description of the Project of the Loan Agreement;

- (f) to modify or eliminate the book-entry registration system for the Bonds; or
- (g) to comply with requirements of a Rating Agency in order to obtain or maintain a rating on any Bonds.

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 mail an executed copy of a supplemental indenture authorized by the provisions 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 mail 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, in and of itself, cause the interest on the Tax-Exempt Bonds to be included as gross income 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 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 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 the provisions summarized under this caption “*Modification with Consent of Bondholders,*” the Authority will mail a notice to the Trustee setting forth in general terms the substance of such supplemental indenture, and the Trustee, upon receipt of such notice, will mail such notice to the Borrower and the Bondholders at the addresses shown on the Bond registration books maintained by the Trustee, at the expense of the Borrower. Any failure of the Authority or 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 mail an executed copy of such supplemental indenture and any amendment of any 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 in the case of the Loan Agreement, the Borrower. The Authority will mail 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 Trustee—*Right of Trustee to Rely on Documents*” 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 may receive an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to the Indenture complies with the requirements of the Indenture and will have no liability to Holders in excluding any Supplemental Indenture in reliance on 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.

## **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. Upon request of the Trustee, the Authority and the Borrower will specify in a certificate to the Trustee those Bonds disqualified and the Trustee may conclusively rely on such certificate.

*Funds and Accounts.* Any fund required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds will at all times be maintained in accordance with customary standards of the corporate trust industry, to the extent practicable, and with due regard for the requirements of the Indenture (and the Tax Certificate) and for the protection of the security of the Bonds and the rights of every Holder thereof.

*Waiver of Personal Liability.* No member, officer, agent or employee of the Program Participant or 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 in the Indenture contained 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 Constitution and 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 be filed and maintained in Sacramento County Superior Court, Sacramento County, California unless the Authority waives this requirement.

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## 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 Repayments; Indemnification; Construction Draws**

*Agreement to Issue Bonds and Application of Bond Proceeds.* In order to fund the Loan and for 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 Borrower approves the terms of the Indenture and, to the extent applicable, agrees to be bound by such terms.

*The Loan; Loan Repayments; Intercept; 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 by causing such proceeds to be deposited with the Trustee for disposition as provided 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 shall be deemed fully discharged upon the deposit of the proceeds of the Bonds with the Trustee pursuant thereto.

(b) Loan Repayments. The Borrower will pay, or cause to be paid, from the Gross Revenues to the Authority as repayment of the Loan the following amounts (which collectively constitute the “Loan Repayments”):

(i) an amount equal to the aggregate amount of interest payable by the Authority on the then Outstanding Bonds;

(ii) on or before the maturity of the Bonds, an amount equal to the principal amount with respect to the Bonds; and

(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.

The Loan Repayments and all other amounts provided under 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 Alliance and the Borrower.

The Borrower will pay, or cause to be paid, the Loan Repayments from the Gross Revenues of the Borrower, including the Rental Payments, or from any other legally available funds of the Borrower, without any further notice thereof except as may be specifically required by the provisions 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 cause the Lessee to deliver an Intercept Notice to the State Controller pursuant to the Loan Agreement. All deposits of moneys derived from the Intercept thereunder will be made at the corporate trust office of the Trustee set forth in the Intercept Notice. The Borrower will cause the Lessee to timely revise the Intercept Notice to require transfers to such other location as will be designated in writing by the Trustee.

(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 reasonable fees, charges and expenses of the Trustee for services rendered under the Indenture and all amounts referred to in the Indenture, as and when the same become due and payable;

(iii) 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;

(iv) All fees and expenses of the Rating Agency, including the S&P Surveillance Fee, 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 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 Indenture;

(v) All amounts necessary for deposit into the Repair and Replacement Fund pursuant to the Indenture; and

(vi) 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 shall be made by the Borrower from the Gross Revenues 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.

*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 or Additional Payments as required by the provisions under this caption “*-The Loan; Loan Repayments; Additional Payments,*” the Loan Repayments, Additional Payments or other payments required under the Loan Agreement not paid from such Gross Revenues will continue as an obligation under the Loan Agreement of the Borrower until the amount in default will have been fully paid.

*Obligations of Borrower Unconditional.* The Borrower will pay to or upon the order of the Authority, at or before the time when payable by the Authority, all costs and liabilities incurred by the Authority, including without limitation fees and expenses of counsel to the Authority, in connection with the issuance of the Bonds and the making of the Loan to the Borrower in the Loan Agreement, or otherwise as a result of the transactions contemplated by the Borrower Documents or the Indenture.

The obligation of the Borrower to make the 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 under the caption “*-The Loan; Loan Repayments; Additional Payments*” (except as expressly 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 respective successors and assigns, is limited to the Gross Revenues and the amounts held in the funds and accounts created under the Indenture or under 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.

*Deed of Trust; Assignment of Lease; Assignment of Authority's Rights.* To secure the payment of Loan Repayments and Additional Payments, the performance by the Borrower of its other obligations under the Loan Agreement, the Borrower has entered into a Deed of Trust, which Deed of Trust the Borrower agrees will be recorded on or prior to the Closing Date. The Borrower agrees, as long as any of the Loan Repayments or Additional Payments 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 owned by the Borrower in fee, 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 owned by the Borrower in fee, 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.

Property will be released from the Deed of Trust if all outstanding Bonds are redeemed pursuant to the Indenture.

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 any deposits to the Rebate Fund; and the Borrower assents to such assignment 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 between 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.

*Construction Draws.* The Borrower may draw the amounts from the Project Fund for construction advances subject to the requirements of the Indenture and the Loan Agreement, upon submission to the Trustee of a Requisition of the Borrower (which includes an acknowledgment by the Lessee), pursuant to the Indenture. Upon the final disbursement from the Project Fund, an Authorized Representative of the Borrower, on behalf of the Borrower, will provide a Certificate of the Borrower certifying same to the Authority and the Trustee. In the event the moneys in the Project Fund should be insufficient to pay the costs of the Project in full, the Borrower agrees to pay directly, or to deposit in the Project Fund moneys sufficient to pay, any costs of completing the Project in excess of the moneys available for such purpose in such Project Fund. The Authority makes no express or implied warranty that the moneys deposited in the Project Fund and available for payment of the Project costs under the provisions of this Loan Agreement, will be sufficient to pay all the amounts which may be incurred for such Project costs. The Borrower agrees that if, after exhaustion of the moneys in the Project Fund, the Borrower should pay, or deposit moneys in the Project Fund for the payment of, any portion of the Project costs, it will not be entitled to any reimbursement therefor from the Authority, the Trustee or the Holders of any of the Bonds, nor will it be entitled to any diminution of the amounts payable hereunder. Upon Completion of the Project, the Borrower will file with the Trustee and the Authority the Completion Certificate with respect to the Project pursuant the Indenture.

## **Maintenance, Taxes, Insurance and Condemnation**

*Maintenance and Operation of the Facility.* The Borrower will operate and 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 in good faith contest the validity thereof, provided that the Borrower will have set aside reserves with respect thereto that, in the commercially reasonable 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. Proceeds of such insurance in the amount of at least twelve (12) months of maximum Loan Repayments under the Loan Agreement will be applied to Loan Repayments, in installments as the proceeds are paid to the Borrower.

(c) Subject to the provisions of the Loan Agreement relating to Workers' Disability Compensation Act, the Borrower covenants and agrees to procure and maintain at all times such other insurance on the Facility and all operations thereon (including, without limitation, liability insurance) in amounts which are customarily carried and against such risks as are customarily insured against by other corporations in connection with the ownership and operation of facilities of similar character and size to the Facility.

(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 intends to act or is acting as a self-insurer.

(e) An independent consultant will review the insurance requirements of the Borrower with respect to the Facility from time to time (but not less frequently than once every five years) commencing July 1, 2018. If such review indicates that the Borrower should increase any of the coverages required 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 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.

(g) The Borrower will file, no later than July 1 of each year, commencing July 1, 2014, with the Trustee a Certificate stating that the Borrower has complied with the insurance covenant under the Loan Agreement. The Trustee is entitled to rely on any such Certificate as to the Borrower's compliance with these provisions, and the Trustee has no further duties in that regard.

*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 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 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 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 the Borrower elects to repair or replace 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 incurred 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 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 net operating income of the School in such Facility is projected to be at least equal to amounts due under the Lease 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 an independent consultant shows that projected net operating income of the School in such Facility will not be sufficient to pay amounts due under the Lease 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.

*Construction Authorization and Permits.* The Borrower will obtain all authorizations and permits relating to the construction of the Project that are necessary to complete the Project from all applicable governmental authorities.

*Lease.* If any Bonds are Outstanding, the Borrower may not voluntarily terminate the Lease prior to completion of its stated terms nor amend the Lease to result in an earlier end of its stated term; provided nothing in this paragraph limits the exercise of any remedy provided in the Lease in the event of default by the Lessee.

*Ownership or Lease of the Project and the Facility.* The Borrower agrees that it will own the Project during the term of this 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. The Borrower will not lease the Facility as lessor except pursuant to the Lease.

### **Additional Covenants and Agreements of Borrower**

#### *Tax Covenants.*

(a) It is the intention of 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 summarized 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 the 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, including from the Lessee, that for purposes of the provisions 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 the benefit 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 this Section. In furtherance of the covenant in this Section, 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.

(f) In the event of any conflict between the terms of the Loan Agreement and the requirements of the Tax Certificate, the Tax Certificate will control.

*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 (as defined in the Continuing Disclosure Agreement) to comply with the Continuing Disclosure Agreement will not be considered an Event of Default under the Loan Agreement or under the Indenture.

*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, except in connection with the Project;
- (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, including but not limited to its contemplated business operations in connection with the Project.

*Employee Benefit Plan Covenant.* The Borrower will continue to make all required contributions to all employee benefit plans, if any, and the Borrower has no knowledge of any material liability which has been incurred by itself and remains unsatisfied for any taxes or penalties with respect to any employee benefit plan or any multi employer plan, and each such plan has been administered in compliance with its terms and the applicable provisions of ERISA and any other federal or state law.

*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 Bonds being treated as an obligation not described in Section 103(a) of the Code.

*Limitation on Disposition of Property, Plant and Equipment and the Facility.* 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 in connection with the development of the Project) of any Property (other than the Non-Pledged Project) 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.

The Borrower may not cause or permit any portion of the Project to be used or operated in any manner except in conjunction with a school under the Charter School Law.

*Sufficiency of Rental Payments.* The Borrower has confirmed in the Loan Agreement that its Gross Revenues are expected to be in an amount sufficient (without any other borrowing) to pay all Loan Repayments.

*Limited Purpose of the Borrower; Prohibition on Additional Debt.*

The Borrower agrees that it is organized and operated for the sole purpose of owning the Facility and that it will not engage in any other business activity or incur any obligations or liabilities other than those associated with the Lease or executed by it or in connection with the Project.

The Borrower will not incur any expressly subordinated indebtedness, other than the debt evidenced by the Loan Agreement, except on a basis subordinate to their obligations under the Loan Agreement.

## 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 the Loan Repayments when due, 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 the giving of written notice thereof to the Borrower; 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 beyond such 30-day period which extension will not exceed 90 days; provided that the Borrower will have commenced cure and be diligently pursuing cure in good faith; 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;
- (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 false or misleading 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) 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 optional redemption and special 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 optional redemption, special redemption and defeasance.

(c) *Prepayment in Whole or in Part from Amounts Transferred from Insurance and Condemnation Proceeds Fund.* The Loan may be prepaid in whole or in part at any time in a principal amount corresponding to amounts transferred from the Insurance and Condemnation Proceeds Fund pursuant to the Indenture and used to redeem Bonds at the option of the Borrower pursuant to the Indenture.

(d) *Prepayment in Part from Amounts Transferred from Project Fund.* The Loan may be prepaid in part at any time in a principal amount corresponding to amounts transferred from the Project Fund pursuant to the Loan Agreement and used to redeem Bonds at the option of the Borrower pursuant to the Indenture.

*Redemption of Bonds Upon Prepayment.* Upon prepayment of the Loan as provided in under the caption “–*Prepayment of the Loan,*” 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 optional redemption and special 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 optional redemption and special 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 Authorized Denominations.

## **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 as permitted under the Indenture, by written instrument executed by the parties to the Loan Agreement. The Authority agrees that it will not consent to an amendment of the Indenture without the approval of the Borrower.

*Waiver of Personal Liability.* No member, officer, agent or employee of the Borrower, the Sole Member or the School or of the Authority will be individually or personally liable for the payment of any principal (or redemption price) or interest on the Tax-Exempt Bonds or any sum under the Loan Agreement or under the Indenture or be subject to any personal liability or accountability by reason of the execution and delivery of the Loan Agreement; but nothing contained in the Loan Agreement will relieve any such member, director, officer, agent or employee from the performance of any official duty provided by law or by the Loan Agreement.

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## The Deed of Trust

*Certain provisions of the Deed of Trust 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 Deed of Trust.*

### Definitions

For purposes of the Deed of Trust: “Trustor” means 2023 Union LLC; “Trustee” means Fidelity National Title Company; and “Beneficiary” means the holder or issuers from time to time of Bonds and the Authority. Other definitions particular to the Deed of Trust are contained below.

### Grant in Trust

Trustor grants and assigns to Trustee, in trust, with power of sale and right of entry and possession, all of Trustor’s right, title and interest owned in certain real property located in the County of Los Angeles, State of California (the “Site”), together with all of the Trustor’s right, title and interest, whether now owned or hereafter acquired, in or to the property and rights listed in paragraphs (a) through (h) below (for purposes of the Deed of Trust, collectively referred to as the “Property”):

(a) All buildings, structures, fixtures, additions, enlargements, extensions, modifications, repairs, replacements and improvements located on the Site (the “Improvements”); and to the extent permitted by law, the name or names, if any, as may now or hereafter be used for each Improvement;

(b) All easements, rights-of-way, strips and gores of land, streets, ways, alleys, passages, sewer rights, water, water courses, water rights and powers, air rights and development rights, liberties, tenements, hereditaments and appurtenances of any nature whatsoever, in any way belonging, relating or pertaining to the Site or the Improvements and the reversions, remainders, and all land lying in the bed of any street, road or avenue, opened or proposed, in front of or adjoining the Site to the center line thereof and all the estates, rights, titles, interests, property, possession, claim and demand whatsoever, both in law and in equity, of Trustor of, in and to the Site and the Improvements and every part and parcel thereof, with the appurtenances thereto;

(c) All machinery, equipment, fixtures (including, but not limited to, all heating, air conditioning, plumbing, lighting, communications and elevator fixtures), inventory and articles of personal property and accessions thereof and renewals, replacements thereof and substitutions therefor, and other tangible property of every kind and nature whatsoever owned by Trustor, or in which Trustor has or will have an interest, located upon the Site or used in connection with the operation and occupancy of the Site or the Improvements;

(d) All awards of payments, including interest thereon, which may be made with respect to the Property to the extent actually received by Trustor, whether from the exercise of the right of eminent domain (including, but not limited to, any transfer of the Property or part thereof made in lieu of or in anticipation of the exercise of said right), or for any other injury to or decrease in the value of the Property;

(e) All leases and other agreements affecting the use, enjoyment or occupancy of the Property now or hereafter entered into (the “Leases”) and all oil and gas or other mineral royalties, bonuses and rents, revenues, security deposits, issues and profits from the Property (the “Rents”) and all proceeds from the sale or other disposition of the Lease and the right to receive and apply the Rents to the payment of the obligations secured by the Deed of Trust;

(f) All proceeds of and any unearned premiums on any insurance policies covering the Property for damage to the Property including, without limitation, the right to receive and apply the proceeds of any insurance, judgments (including with respect to a casualty thereto or condemnation thereof), or settlements made in lieu thereof, for damage to the Property;

(g) The right, in the name and on behalf of Trustor, to appear in and defend any action or proceeding brought with respect to the Property and to commence any action or proceeding to protect the interest of Beneficiary in the Property; and

(h) All right, title and interest of every nature of the Trustor in all receivables and other accounts of Trustor relating to the Property and in all monies deposited or to be deposited in any funds or account maintained or deposited with Beneficiary in connection therewith, if any.

### **Assignment of Rents**

Trustor absolutely and irrevocably assigns to Beneficiary the Rents of the Property upon the terms and conditions set forth in the Deed of Trust. This assignment will not impose upon Beneficiary any duty to produce Rents from the Property, and said assignment will not cause Beneficiary to be a “mortgagee in possession” for any purpose. This assignment of the Rents and profits of the Property is intended to be an absolute assignment from Trustor to Beneficiary and not merely the passing of a security interest. Beneficiary is authorized to collect and receive the foregoing Rents, to give proper receipts and acquittances therefor and to apply the same to the payment of the obligations secured thereby. However, Beneficiary grants Trustor a revocable license to collect and receive, and to use in accordance with the provisions of the Indenture, such Rents until after an Event of Default (as that term is defined in the Deed of Trust) has occurred and while such Event of Default is continuing. Upon an Event of Default, the license will be automatically revoked and, without the necessity of Beneficiary entering upon and taking and maintaining full control of the Property in person, by agent or by a court appointed receiver, Beneficiary will immediately be entitled to possession of all Rents of the Property as the same will become due and payable, including, but not limited to, Rents then due and unpaid. All such Rents thereafter collected by Trustor will be held by Trustor as trustee in a constructive trust for the benefit of Beneficiary only. Trustor agrees that commencing upon delivery of such written notice of revocation of license, each tenant of the Property will make such Rents payable to and pay such Rents to Beneficiary or Beneficiary’s agents on Beneficiary’s written demand to each tenant, without any liability on the part of said tenant to inquire further as to the existence of a default or license by Trustor.

### **Obligations Secured**

Trustor makes the foregoing grant for the purpose of securing:

(a) Payment to the Authority of all Loan Repayments and Additional Payments and other amounts to be paid by Trustor arising under the Loan Agreement;

(b) The observance and performance by Trustor of each covenant and obligation on the part of Trustor to be observed or performed pursuant to the Loan Agreement (as amended, supplemented or otherwise modified from time to time referred to collectively with the Indenture, as the “Financing Documents”);

(c) The payment of all payments required with respect to Bonds issued or executed and delivered from time to time by the Trustor and the performance by Trustor of each covenant and obligation on part of Trustor to be observed or performed pursuant to the agreements and instruments pursuant to which such Bonds is issued or executed and delivered;

(d) The observance and performance of each covenant and obligation of Trustor contained or incorporated in the Deed of Trust by reference and payment of each fee, cost and expense by Trustor as set forth in the Deed of Trust; and

(e) Payment of such further sums and performance of such further obligations as the then record owner of the Property may undertake to pay and perform for the benefit of Beneficiary, its successors or assigns, when said borrowing or obligation is evidenced by a writing signed by such owner reciting that it or they are so secured.

### **Certain Rights and Duties of the Parties**

Title. Trustor warrants that it lawfully holds and possesses the real property described in the Deed of Trust, in fee simple, free and clear of all liens, encumbrances and other exceptions, other than the Permitted Liens, and without limitation on the right to encumber except as set forth in the Loan Agreement.

Liens and Encumbrances. Except as permitted by the Financing Documents, Trustor will pay, when due at or prior to maturity or such other period as permitted in the Loan Agreement, all obligations secured by or reducible to liens and encumbrances which encumber the Property or any part thereof or interest therein, whether senior or subordinate hereto, including without limitation all claims for work or labor performed, or materials or supplies furnished, in connection with any work of demolition, alteration, improvement of or construction upon the Property. Trustor has the right to contest in good faith any such obligation or claim provided such contest is prosecuted diligently and in a manner not prejudicial to Beneficiary, and if a judgment adverse to Trustor is obtained, such judgment will be fully paid or discharged within ten (10) days after the entry of such judgment unless such judgment is stayed. Upon demand by Beneficiary, Trustor will defend, indemnify and hold Beneficiary harmless against any such obligation or claim, so contested by Trustor, and upon demand by Beneficiary, Trustor will make suitable provision by payment to Beneficiary or by posting a bond or other security satisfactory to Beneficiary for the possibility that the contest will be unsuccessful, including, if Beneficiary requests, a one and one half times bond with respect to mechanics' or materialmens' liens, if available. Such provision will be made within ten (10) days after demand therefor and, if made by payment of funds to Beneficiary, the amount so deposited will be disbursed in accordance with the resolution of the contest either to Trustor or the adverse claimant. If Trustor fails to post a suitable bond or other acceptable security as provided, Beneficiary may remove or pay such lien or encumbrance at Trustor's expense.

Maintenance and Preservation of the Property. Trustor covenants: (i) to maintain or cause to be maintained the Property in good condition and repair; (ii) to pay when due all claims for work performed and for materials furnished on or to the Property to the extent required by the Financing Documents and which are not otherwise being contested by the Trustor in good faith, and to pay within the periods permitted in the Financing Documents any and all liens or encumbrances arising out of or resulting from work performed or materials supplied on or to the Property to the extent required by the Financing Documents; (iii) to comply in all material respects with and not suffer material violations of, (a) any and all laws, ordinances and regulations ("Laws"), (b) any and all covenants, conditions, restrictions and equitable servitudes ("Covenants"), and (c) all requirements of insurance companies ("Requirements"), which Laws, Covenants or Requirements affect the Property and pertain to acts committed or conditions existing thereon, including without limitation such work of alteration, improvement or demolition as such Laws, Covenants or Requirements mandate; (iv) not to commit or permit waste of the Property; (v) to do all other acts which from the character or use of the Property may be reasonably necessary to maintain and preserve its value; (vi) to perform all material obligations required to be performed in leases, conditional sales contracts or like agreements affecting the Property or the operation, occupation or use thereof; (vii) not to create any deed of trust or encumbrance upon the Property other than Permitted Liens;

(viii) to make no further assignment of Rents of the Property other than Permitted Liens; and (ix) to execute and, where appropriate, acknowledge and deliver such further instruments as Beneficiary or Trustee reasonably deems necessary or appropriate to preserve, continue, perfect and enjoy the security provided for herein, including without limitation assignments of Trustor's interest in the leases of the Property.

Collection of Rents. Subject to the provisions of the Financing Documents, Beneficiary confers upon Trustor the authority to collect and retain Rents of the Property as they become due and payable; provided, however, that Beneficiary may revoke said authority and collect and retain the Rents of the Property assigned herein to Beneficiary upon the occurrence and continuance of an Event of Default (as that term is defined in the Deed of Trust) by Trustor upon giving written notice to Trustor, and without regard to the adequacy of any security for the indebtedness hereby secured, and without taking possession of all or any part of the Property or becoming a "mortgagee in possession." The right to collect Rents as provided in the Deed of Trust will not grant to Beneficiary or Trustee the right to possession, except as expressly therein provided; nor will said right impose upon Beneficiary or Trustee the duty to produce Rents or profits or maintain the Property in whole or in part. Trustor agrees that it will do nothing to impair Beneficiary's ability to collect and retain the Rents and interests herein assigned on the terms hereof and that any tenant or subtenant occupying the Property or any part thereof may pay any and all Rents or other charges directly to Beneficiary upon notice from Beneficiary without the necessity of any notice from Trustor. Beneficiary may apply, in its sole discretion, any Rents, so collected by Beneficiary against any indebtedness secured hereby or any obligations of Trustor arising hereunder or any other obligations of Trustor to Beneficiary, whether existing or hereafter arising. Collection of any Rents by Beneficiary will not cure or waive any default or notice of default hereunder or invalidate any acts done pursuant to such notice.

Powers of Trustee. From time to time upon the written request of Beneficiary and presentation of the Deed of Trust for endorsement, Trustee may (i) reconvey all or any part of the Property, (ii) consent to the making of any map or plat thereof, (iii) join in granting any easement thereon, (iv) join in any declaration of covenants and restrictions, or (v) join in any extension agreement or any agreement subordinating the lien or charge hereof. Trustee will, upon request by Trustor, consent to utility easements, subdivision maps and similar rights in the Property granted or applied for by Trustor, provided that rights granted or applied for (a) are customary in connection with the development of real property, (b) are reasonable in form and content, and (c) do not materially and adversely diminish the value of the Property. Trustee or Beneficiary may from time to time apply to any court of competent jurisdiction for aid and direction in the execution of the trusts under the Deed of Trust and the enforcement of the rights and remedies available thereunder, and Trustee or Beneficiary may obtain orders or decrees directing or confirming or approving acts in the execution of said trusts and the enforcement of said remedies. Trustee has no obligation to notify any party of any pending sale or any action or proceeding unless held or commenced and maintained by Trustee under the Deed of Trust. Trustor will pay to Trustee reasonable compensation and rents for services and expenses in the administration of the trusts created hereunder upon the occurrence of an Event of Default, including reasonable attorneys' fees. Trustor indemnifies Trustee and Beneficiary against all losses, claims, demands and liabilities (except losses, claims, demands or liabilities arising from the negligence or willful misconduct of the indemnified party) which may be incurred, suffered or sustained in the execution of the trusts created hereunder or in the performance of any act required or permitted under the Deed of Trust or by law.

Reconveyance. Upon Beneficiary's written request, and upon surrender to Trustee for cancellation of the Deed of Trust and a copy of the instrument or instruments setting forth all obligations secured hereby, Trustee will reconvey, without warranty, the Property or that portion thereof then held under the Deed of Trust. The recitals of any matters or facts in any reconveyance executed under the Deed of Trust will be conclusive proof of the truthfulness thereof. To the extent permitted by law, the

reconveyance may describe the grantee as “the person or persons legally entitled thereto.” Neither Beneficiary nor Trustee will have any duty to determine the rights of persons claiming to be rightful grantees of any reconveyance. When the Property has been fully reconveyed, the last such reconveyance will operate as a reassignment of all future Rents of the Property to the person legally entitled thereto, unless such reconveyance expressly provides to the contrary.

Environmental Matters.

(a) *Definitions.* The following definitions apply to the provisions of the Deed of Trust concerning environmental matters:

(1) The term “Responsible Person” shall mean Trustor, and any other person who owns or acquires any interest in any part of the Property so long as Trustor continues to own the Property, including but not limited to any tenants, easement holders, licensees and other persons using or occupying the Property or any portion thereof and all persons in transit across any part of the Property.

(2) The term “Applicable Law” shall include, but may not be limited to, each statute named or referred to in (2) below and any other local, state and federal laws, rules, regulations and ordinances, which govern, to the extent applicable to the Property: (i) the existence, cleanup or remedy of contamination on property; (ii) the protection of the environment from soil, air or water pollution, or from spilled, deposited or otherwise emplaced contamination; (iii) the emission or discharge of hazardous substances into the environment; (iv) the control of hazardous wastes; or (v) the use, generation, transport, treatment, removal or recovery of hazardous substances.

(3) The term “Hazardous Substance” shall mean (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 Property or to persons on or about the Property or (ii) cause the Property to be in material violation of any Applicable Law; (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 Applicable Law including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), 42 U.S.C. §§ 9601 et seq.; the Resource Conservation and Recovery Act (“RCRA”), 42 U.S.C. §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 U.S.C. §§ 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 Property or the owners or occupants of property adjacent to or surrounding the Property, or any other person coming upon the Property or adjacent property; and (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

(b) *Covenants and Representations.*

(1) Except as set forth in the Official Statement related to the issuance of the Bonds, Trustor represents and warrants that there have not been during the period of Trustor's ownership and, to the best of Trustor's knowledge, information and belief, there have not been at any other times, any activities on the Property involving the use, generation, treatment, storage or disposal of any Hazardous Substances in material violation of Applicable Law (a) under, on or in the land included in the Property, (b) incorporated in the buildings, structures or improvements included in the Property, or (c) used in connection with any operations on or in the Property, in each case that would have a material adverse effect on the Trustor's operations, taken as a whole.

(2) Trustor will not allow any Hazardous Substances to be brought onto, installed, used, stored, treated or disposed or transported over the Property in material violation of Applicable Law.

(3) Trustor represents that all activities and conditions on the Property are currently in compliance with Applicable Law, except to the extent that non-compliance could not reasonably be expected to materially impair the use of the Property or materially and adversely affect the value thereof. So long as Trustor owns the Property, Trustor covenants and agrees that all activities on the Property will at all times comply with Applicable Law except to the extent that non-compliance could not reasonably be expected to materially impair the use of the Property or materially and adversely affect the value thereof.

(4) Trustor will be solely responsible for and agrees to indemnify Beneficiary, the Authority and the Trustee, protect and defend with counsel acceptable to Beneficiary and the Authority, and hold Beneficiary and the Authority harmless from and against any claims (including without limitation third party claims for personal injury or real or personal property damage), actions, administrative proceedings (including informal proceedings), judgments, damages, punitive damages, penalties, fines, costs, liabilities (including sums paid in settlements of claims), interest or losses, reasonable attorneys' fees (including any fees and expenses incurred in enforcing this indemnity), reasonable consultant fees, and expert fees that arise from or in connection with the presence or release of any Hazardous Substance in, or from the Property, or any other violation of Applicable Law, or any breach of the foregoing representations and covenants.

**Default Provisions**

Definitions. As used in the Deed of Trust, the term "Event of Default" means each of the following:

(a) Trustor fails to perform or observe any term or condition of the Deed of Trust applicable to Trustor or to the Property, and such event or circumstance, if capable of being cured, is not cured within 60 days after written notice thereof is given by Trustee or Beneficiary to Trustor;

(b) The holder of any junior, subordinated or senior mortgage, deed of trust or other lien on the Property (without hereby implying Beneficiary's consent to any junior, subordinated or senior mortgage, deed of trust or other lien) is granted relief in any foreclosure for the enforcement of its remedies thereunder, which relief (i) negatively affects Beneficiary's rights hereunder and (ii) is not stayed; or

(c) If any Event of Default under the Indenture or under the Loan Agreement occurs.

Rights and Remedies. At any time after the occurrence and during the continuance of an Event of Default, Beneficiary and Trustee will each have the following rights and remedies:

- (a) To declare all obligations secured hereby immediately due and payable;
- (b) With or without notice, and without releasing Trustor from any obligation under the Deed of Trust, to cure any default of Trustor and, in connection therewith, to enter upon the Property and to perform such acts and things as Beneficiary or Trustee deem necessary or desirable to inspect, investigate, assess and protect the security thereof;
- (c) To commence and maintain an action in any court of competent jurisdiction to foreclose the Deed of Trust instruments as a mortgage or to obtain specific enforcement of the covenants of Trustor thereunder, and Trustor agrees that such covenants are to be specifically enforceable by injunction or any other appropriate equitable remedy and that for the purposes of any suit related to such action, Trustor waives the defense of laches and any applicable statute of limitations;
- (d) Beneficiary or its employees, acting by themselves or through a court-appointed receiver may enter upon, possess, manage, operate, dispose of and contract to dispose of the Property; negotiate with governmental authorities with respect to the Property's environmental compliance and remedial measures; make, terminate, enforce or modify leases of the Property upon such terms and conditions as Beneficiary deems proper; contract for goods and services, hire agents, employees and counsel, make repairs, alterations and improvements to the Property necessary to protect the security thereof; or incur the risks and obligations ordinarily incurred by owners of property;
- (e) To execute a written notice of such Event of Default, and of its election to cause the Property to be sold to satisfy the obligations secured hereby, Trustee will give and record such notice as the law then requires as a condition precedent to a Trustee's sale. When the minimum period of time required by law after such notice has elapsed, Trustee will sell the Property at public auction to the highest bidder for cash payable at time of sale;
- (f) To resort to and realize upon the security hereunder in such order and manner as Trustee and Beneficiary may, in their sole discretion, determine, and resort to any or all such security may be taken concurrently or successively and in one or several consolidated or independent judicial actions or lawfully taken non judicial proceedings, or both;
- (g) To seek a judgment that Trustor has breached its covenants, representations or warranties with respect to the environmental matters set forth above, by commencing and maintaining an action in any court of competent jurisdiction for breach of contract pursuant to California Civil Procedure Code Section 736, and to seek the recovery of any and all costs, damages, expenses, fees, penalties, fines, judgments, indemnification payments to third parties, and other reasonable out of pocket costs or expenses actually incurred by Beneficiary (collectively, the "Environmental Costs") incurred by Beneficiary relating to the cleanup, remediation or other response action required by Applicable Law; and
- (h) To waive its lien against the Property to the extent such property is found to be environmentally impaired in accordance with California Code of Civil Procedure Section 726.5 and to exercise any and all rights and remedies of an unsecured creditor against Trustor and all of Trustor's assets and property for the recovery of any deficiency and Environmental Costs.

## **Security Agreement and Fixture Filing**

Grant of Security Interest. As additional security for the obligations secured by the Deed of Trust, Trustor grants to Beneficiary a security interest in and to the following items (collectively, the “Collateral”). Trustor is sometimes referred to herein as “Debtor” and Beneficiary is sometimes referred to herein as “Secured Party”.

(a) All goods, fixtures and other equipment of every kind in which Debtor owns or acquires any interest in connection with the Property, including, without limitation, all tools, equipment, appliances, heating, ventilating and air conditioning systems, plumbing, mechanical and electrical systems, elevators, lighting, alarm systems, fire control systems, carpets and carpeting, furnishings, furniture, trailers, mobile homes, service equipment, building or maintenance equipment, and all additions and accessions thereto, whether located at the Property, Debtor’s places of business or elsewhere;

(b) All inventory and tangible assets used or consumed in connection with the Property in which Debtor owns or acquires any interest, and all products thereof, whether in the possession of Debtor, warehousemen, bailees or any other person and to the extent located at the Property;

(c) All goods and property covered by any warehouse receipts, bills of lading and other documents evidencing any goods or other tangible personal property of any kind in which Debtor has any interest in connection with the Property or Collateral;

(d) All goods and other tangible personal property of every kind, character or nature in which Debtor has any interest, located on or used in the operation, use, maintenance, development or construction of or otherwise in connection with the Property or Collateral;

(e) All general intangibles, accounts, agreements, contracts, documents and leases in which Debtor has an interest related to the Property or the use, operation or maintenance of the Property;

(f) All profits, payments or proceeds of and from any and all agreements for the sale, lease, transfer or conveyance of the Property, subject to the rights of Debtor to collect and retain the same so long as no Event of Default will have occurred and is continuing; and

(g) Any and all products, accessions, additions, substitutions, replacements or proceeds of or to any of the Collateral, and any and all rent or income derived from the Collateral, subject to the rights of Debtor to collect and retain the same so long as no Event of Default will have occurred and is continuing.

Remedies. Upon an Event of Default, Beneficiary will be entitled to all the rights, powers and remedies granted a secured party under the California Uniform Commercial Code and other applicable law, including, but not limited to, the right to take possession of all such Collateral.

## **Amendments; Releases or Reconveyances**

The Deed of Trust may be amended, changed, modified or terminated at any time, without the necessity of obtaining the consent of the Authority, the Trustee or the holders of the Bonds, subject to the conditions and as provided in Section 8.04 of the Loan Agreement and Section 6.06 of the Indenture.

## The Lease

*Certain provisions of the Lease 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 Lease.*

### Term

The term of the Lease will commence on October 24, 2013 (the “Commencement Date”) and will end on September 30, 2048 (the “Initial Term”) (or such other later date if Lessee exercises its extension option) (such date, as it may be extended, “Expiration Date”). Based upon the occurrence of any of the events described in the Loan Agreement, the Lease may be terminated by Lessee by depositing with the Trustee (as described under the heading “Base Rent” below) sufficient cash or securities to defease the principal amount of the Bonds (as described under the heading “Base Rent” below) relating to the School as set forth as an exhibit to the Loan Agreement (as described under the heading “Base Rent” below).

Extension Option. Lessee shall have 2 options to extend the Term, each for five (5) years (such extension terms, the “Extension Term” and, collectively with the Initial Term, the “Term”) with the Rent during the Extension Term to be set at an amount no less than the Fair Market Rent of the Premises (as defined in the Lease) at the date the option becomes exercisable. “Fair Market Rent” for purposes of the provisions of the Lease described in this section shall be determined pursuant to the Lease.

Base Rent. Lessor and Lessee acknowledge that Lessor is obtaining a loan (the “Loan”) from the California School Finance Authority (the “Lender”) as evidenced by a Loan Agreement dated as of October 1, 2013, by and between the Lender and Lessor (Lessor, in such capacity, is sometimes referred to as the “Borrower”) (the “Loan Agreement”). The Loan will be funded by the proceeds of the Lender’s School Facility Revenue Bonds (Alliance for College-Ready Public Schools - 2023 Union LLC Project), 2013 Series A (the “Bonds”) pursuant to an Indenture dated as of October 1, 2013 (the “Indenture”) by and between the Lender and The Bank of New York Mellon Trust Company, N. A., as trustee (the “Trustee”). So long as the Loan is outstanding, the “Base Rent” will be payable in accordance with the schedule set forth in Exhibit C of the Lease, subject to downward adjustment in the event of any defeasance of all or a portion of the Bonds or prepayment of all or a portion of the Loan.

Simultaneously with the execution and delivery of the Bonds, Lessee will deliver the Intercept Notice, substantially in the form set forth in the Lease (the “Intercept Notice”), to the State Controller. Amounts specified in the Intercept Notice for transfer to the Trustee shall be limited to State Apportionments. Lessee will amend, supplement or restate the Intercept Notice and deliver such to the State Controller from time to time as necessary to indicate transfers to the Trustee to pay the amounts due under the Lease as they come due and to cure any delinquency in payment of such amounts. The Intercept Notice may provide additional amounts payable to the Trustee for purposes set forth in the Indenture; provided, that Lessee shall not grant preference or any prior right of funding access or security in respect of the State Apportionment to any other payment indicated in the Intercept Notice or any other notice delivered pursuant to Section 17199.4 of the Education Code of the State of California.

### Premises

Lessor leases to Lessee, and Lessee leases from Lessor, the Premises, for the Term, at the Rent (as defined below) and upon and subject to all of the terms, covenants and conditions set forth in this Lease.

## Rent and Expenses

Rent Defined. Subject to the terms of the Lease Agreement, Base Rent, Expenses, Additional Rent and all other monetary obligations of Lessee to Lessor or to third parties arising under the terms of the Lease, excluding Lessee's obligations under the Lease, are deemed to be rent ("Rent").

Expenses. Lessee shall be responsible for all Expenses which Lessee shall pay to Lessor within thirty (30) days after receiving a statement from Lessor itemizing (with reasonable description) all charges included thereon.

"Expenses" shall mean all costs and expenses of the ownership, operation, maintenance, repair or replacement, and insurance of the Premises, as determined by standard accounting practices, including, by way of illustration only, and not by way of limitation, to the extent they apply to the Premises:

- (i) Gross receipts taxes, whether assessed against Lessor or assessed against Lessee and collected by Lessor;
- (ii) Water, sewage, and waste or refuse removal charges;
- (iii) Gas, electricity, telephone and other utilities;
- (iv) Reasonable costs incurred in the day-to-day management (if any), including the cost of management personnel;
- (v) Air conditioning & heating;
- (vi) Elevator maintenance (if any);
- (vii) Supplies, materials, labor, equipment, and utilities used in or related to the operation and maintenance of the Premises;
- (viii) All maintenance, replacement and repair costs including, without limitation, janitorial, cleaning and repair services relating to the Premises and all improvements thereon, including, without limitation, air conditioning systems, landscaping, service areas, building exteriors (including painting), signs and directories, repairing and replacing roofs, walls, janitorial (if any is supplied), capital improvements and upgrades, and cost of compliance with applicable laws;
- (ix) Capital improvements made to the Premises (whether funded in full or amortized with reasonable financing charges) which may be required by any government authority or which will improve the operating efficiency of the Premises;
- (x) Real Property Taxes and personal property taxes, if any; and
- (xi) Any other costs or expenses reasonably incurred by Lessor under the Lease and not otherwise reimbursed by Lessee.
- (xii) Any other costs or expenses incurred by Lessor under the Lease and not otherwise reimbursed by Lessee or any other lessee of the Premises. Expenses will not include depreciation on the buildings of which the Premises are a part.

(xiii) Any rent payable by Lessor pursuant to the Parking Space Lease or any similar agreement entered into by Lessor during the Term which provides for parking spaces for the Premises (with Lessee's Share thereof being based on the number of parking spaces actually allotted to Lessee).

Additional Rent. In addition to Base Rent and Expenses, Lessee will be responsible for the payment of Additional Rent. Additional Rent will be paid to Lessor on demand or, if such Additional Rent is ongoing and can be calculated on a periodic basis, on a monthly basis pursuant to a written schedule from time to time delivered by Lessor.

"Additional Rent" will include but not be limited to the following:

(i) All amounts required to be paid, or to reimburse Lessor for, any fees, expenses, taxes, indemnities, assessments or other payments that it pays under the terms of the Loan Agreement to or on behalf of the Lender, including, without limitation, amounts required to be paid pursuant to the Loan Agreement;

(ii) Amounts necessary to pay, or to reimburse Lessor for any payments it makes with respect to, the reasonable fees and expenses of such employees, agents, accountants, consultants, attorneys and other experts as may be engaged by the Lender or Lessor to prepare such audits, financial statements, reports, opinions, or provide such other services, as may be required under the Loan Agreement or this Agreement;

(iii) Amounts required to be paid by Lessor in connection with any and all fees of the Trustee under the Indenture, any and all fees of the Lender and the Repair and Replacement Fund, all as described in the Loan Agreement;

(iv) Amounts required to be paid by Lessor in connection with any and all indemnities it gives under the Loan Agreement; and

(v) Amounts necessary to pay, or to reimburse Lessor for payments it makes with respect to, Lessor's reasonable general operating expenses, including Lessor's payment of Lessor's share of the reasonable general operating expenses of Lessor's sole member.

Payment. Lessee's obligation to pay Rent will commence on the Rent Commencement Date. Lessee will cause all Rent payable to Lessor under the Lease to be received by Lessor in lawful money of the United States on or before the day on which it is due, without offset or deduction. Rent for any period during the Term hereof which is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent due to Lessor will be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Subject to the terms of the Indenture, and so long as any of the Bonds or the Loan remains outstanding, Lessee will from time to time, as necessary: (a) cause the Los Angeles County Office of Education to transfer the portion of the State Apportionment attributable to the School to the Trustee for deposit in the Revenue Fund; and (b) cause the Trustee to pay from the Revenue Fund the Rent due to Lessor under the terms of the Lease.

Budgeting Rent. The Lessee will take such action as may be necessary to include all such payments of Rent due under the Lease in its annual budgets, to make, as necessary, annual appropriations for all such payments and to take such action annually as shall be required to provide funds in such year for such payments of Rent.

Source of Rent Payments. The School's obligation to pay Rent is a general obligation of the School, and the School pledges the Gross Revenues of the School to such payment. Nothing contained in this paragraph shall be construed to release Lessor from the performance of any of the agreements on its part contained, and in the event Lessor shall fail to perform any such agreements on its part, Lessee may institute such action against Lessor as Lessee may deem necessary to compel performance so long as such action does not abrogate the obligations of Lessee contained in the first sentence of this paragraph. The Lessee may, however, at Lessee's own cost and expense and in Lessee's own name or in the name of Lessor prosecute or defend any action or proceeding or take any other action involving third persons which Lessee deems reasonably necessary in order to secure or protect Lessee's right of possession, occupancy and use under the Lease Agreement, and in such event Lessor hereby agrees to cooperate fully with Lessee and to take such action necessary to effect the substitution of Lessee for Lessor in such action or proceeding if Lessee so requests.

As used in the Lease Agreement, "Gross Revenues of the School" means all income and revenues directly or indirectly derived by the Lessee's operation of the School, including without limitation, per-pupil revenues and other funding received from the State of California or by virtue of the Charter granted to Lessee for the School and all gifts, grants, bequests and contributions (including income and profits therefrom) specifically restricted by the donor or maker thereof to the School or the Premises, to the extent not specifically restricted by the donor or maker thereof to a particular purpose inconsistent with their use for the payments required under the Lease.

## **Use**

Use. Lessee shall use and occupy the Premises only for "educational facilities" as defined in Section 17173(f) of the Education Code of the State of California in order to operate a charter school that is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code (the "Code") as an organization described in Code Section 501(c)(3) and that qualifies as an "educational organization" as described under Code Section 170(b)(1)(A)(ii) (the "Agreed Use"), and for no other purpose, provided that Lessee will not rent the Premises as residential rental property to others, or permit any subtenant to rent the Premises as residential rental property to others. Lessee will not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs other tenants on the Premises or causes damage to neighboring premises or properties.

### Hazardous Substances.

(a) *Reportable Uses Require Consent.* Lessee will not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances (both as defined in the Lease) without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements.

(b) *Duty to Inform Lessor.* If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee will immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) *Lessee Remediation.* Lessee will not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and will promptly, at Lessee's expense, comply with all Applicable Requirements and take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of

the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the Term of the Lease, by or for Lessee, or any third party.

(d) *Lessee Indemnification.* Lessee will indemnify, defend and hold Lessor, its managing member, and the agents, employees, officers, directors of either of them harmless from and against any and all loss of rents and/or damages, liabilities (including, without limitation, any liability of Lessor to the Lender under the Loan Agreement), judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee (provided, however, that Lessee shall have no liability under the Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties not caused or contributed to by Lessee).

(e) *Lessor Indemnification.* Lessor shall indemnify, defend and hold Lessee, its managing member, and the agents, employees, officers, directors of either of them harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises (by a party other than Lessee) prior to the Commencement Date (provided, however, that Lessor shall have no liability under the Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties not caused or contributed to by Lessor).

(f) *Hazardous Substance Condition Remediation.* If Lessee becomes aware of a Hazardous Substance Condition (as defined in the Lease) occurring during the Term of the Lease, then Lessee shall notify Lessor and Lessor shall make the investigation and remediation thereof required by the Applicable Requirements, the costs relating thereto constituting an Expense for which Lessee is responsible and the Lease shall continue in full force and effect, but subject to Lessor's rights under the Lease; provided, however, that if a Hazardous Substance Condition occurs as a result of Hazardous Materials that are brought on the Premises (by a party other than Lessee) prior to the Commencement Date, then Lessor shall be solely responsible for making the investigation and remediation thereof at its sole cost and expense, and the Lease shall continue in full force and effect.

## **Maintenance; Repairs**

Lessee's Obligations. Subject to the provisions of the Lease under the headings "Lessor's Obligations", "Damage or Destruction" and "Condemnation", Lessee will, at Lessee's sole expense, keep the interior, exterior and structural elements of the Premises in good order, condition and repair; and keep the exterior, structural and major utility components of the Premises and other portions of the Premises in good order, condition and repair, including, but not limited to, all equipment or facilities, such as plumbing, HVAC equipment, electrical, lighting facilities, boilers, pressure vessels, fire protection system, fixtures, walls (interior and exterior), ceilings, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, or adjacent to the Premises. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Subject to the provisions of the Lease under the headings "Damage or Destruction" and "Condemnation" and to the provisions of the Indenture (governing funds relating to, among other things, insurance and condemnation proceeds and charter revocation), it is intended by the Parties to the Lease that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or the equipment therein, all of which obligations are intended to be that of Lessee. It is the intention of the Parties that the terms of the Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the term so of the Lease.

Lessor's Obligations. Subject to the provisions of the Lease under the headings "Condition", "Compliance", "Damage or Destruction" and "Condemnation", Lessor will keep the Common Facilities and Areas and other portions of the Premises not covered in the Lease in good order, condition and repair. All costs and expenses incurred by Lessor in connection with the aforesaid maintenance and repair shall be deemed "Expenses" for which Lessee will pay Lessee's Share. Lessor's obligations will include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair, and the costs relating thereto shall be deemed an "Expense" for which Lessee will pay Lessee's Share.

## **Insurance; Indemnity**

Liability. Lessee will keep in force such liability insurance policies and in such amounts as set forth in the Lease. The premium for such insurance shall be deemed an "Expense" under the Lease.

Property. Lessee will obtain and keep in force a policy or policies of property insurance in the name, and for the benefit, of Lessor, with loss payable to Lessor and to any lender insuring loss or damage to the Premises. The amount of such insurance shall be as set forth in the Lease. The premium for such insurance shall be deemed an "Expense" under the Lease.

Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor each release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against in the Lease. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable to the Lease. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

Indemnity. Except for Lessor's negligence or willful misconduct, Lessee will indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, partners, members, directors, officers and lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified. The provisions of the Lease described in this section shall survive the termination of the Lease.

Exemption of Lessor from Liability. Lessor will not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or from other sources or places.

## **Real Property Taxes**

Payment of Taxes. Lessee will timely file for exemption against any Real Property Taxes and will maintain such exemption during the Term. In any event, Lessee shall pay, before the same become past due, the Real Property Taxes applicable to the Property during the Term to the extent any such Real Property Taxes are charged, levied, assessed or imposed.

Personal Property Taxes. Lessee will timely file for exemption against any Real Property Taxes and will maintain such exemption during the Term. In any event, Lessee will pay, prior to delinquency, the Real Property Taxes applicable to the Premises during the Term to the extent such Real Property Taxes are charged, levied, assessed or imposed.

### **Assignment and Subletting**

By Lessee. Lessee may not sublease, assign, mortgage, pledge, hypothecate or encumber the Lease or any of Lessee's interest under the Lease without the prior written consent of Lessor (which may not be unreasonably withheld). Lessee acknowledges that, pursuant to the Loan Agreement, Lessor is required to obtain Lender's approval to a sublease, assignment or other transfer of Lessee's interest in the Lease and that Lessor's disapproval will be deemed reasonable if based on Lender's disapproval. Lessee acknowledges that the financing of the Property through the tax-exempt Bonds may restrict the assignees which could be approved by Lessor.

By Lessor. Lessee acknowledges that the Premises are subject to a deed of trust and assignment of rents in favor of the Lender and that the Lease is assigned to the Lender as security for the Loan.

### **Default; Breach; Remedies**

Default; Breach. A "Default" is defined as a failure by Lessee to comply with or perform any of the terms, covenants or conditions under the Lease. A "Breach" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

- (a) The abandonment of the Premises.
- (b) The failure of Lessee to make any payment of Rent required to be made by Lessee under the Lease, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under the Lease which endangers or threatens life or property, where such failure continues for a period of 3 business days following written notice to Lessee.
- (c) Any material representation or warranty made in the Lease, or in any report, certificate, financial statement, or instrument furnished in connection with the Lease, proves to have been false or misleading when made, in any material respect.
- (d) Lessee violates or fails to observe or perform certain covenants contained in the Lease.
- (e) A Default by Lessee as to the terms, covenants, conditions or provisions of the Lease, other than those described in subparagraphs (a) through (d) above, where such Default continues for a period of thirty (30) days after written notice; provided, however, that if the nature of Lessee's Default is such that more than 30 days are reasonably required for its cure, then it will not be deemed to be a Breach if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.
- (f) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C. §101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 90 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in the Lease, where possession is not restored to Lessee within sixty (60) days; or (iv) the attachment, execution or other judicial seizure of

substantially all of Lessee's assets located at the Premises or of Lessee's interest in the Lease, where such seizure is not discharged within sixty (60) days; provided, however, in the event that any provision of this subparagraph (e) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

- (g) The discovery that any financial statement of Lessee given to Lessor was materially false.

## **Remedies**

If Lessee fails to perform any of its affirmative duties or obligations (other than compliance with covenants and financial reporting requirements pursuant to the provisions of the Lease), within fifteen (15) days after written notice (or, in the case of those duties and obligations that cannot reasonably be performed within fifteen (15) days after notice, to commence and diligently prosecute such duties and obligations to completion), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. Lessee shall pay to Lessor the costs and expenses incurred by Lessor in such performance upon receipt of an invoice therefor. In the event of a Breach, including Lessee's failure to comply with the covenants or financial reporting requirements set forth in the Lease, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

- (a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case the Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid Rent for the balance of the term after the time of award exceeds the amount of such rental loss that Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by Lessee's failure to perform its obligations under the Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees of Lessor and the Lender, and that portion of any leasing commission paid by Lessor in connection with the Lease applicable to the unexpired term of the Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of the Lease will not waive Lessor's right to recover damages under the Lease. If termination of the Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under the Lease was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by the Lease. In such case, the applicable grace period required by the Lease and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of the Lease entitling Lessor to the remedies provided for in the Lease and/or by said statute.

- (b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located.

Interest. Any monetary payment due Lessor under the Lease not received by Lessor when due as to scheduled payments (such as Base Rent) or within thirty (30) days following the date on which it was due for non-scheduled payments, shall bear interest from the date when due as to scheduled payments, or the 31st day after it was due as to non-scheduled payments. The interest (“Interest”) charged shall be computed at the rate of 10% per annum but may not exceed the maximum rate allowed by law. Interest is payable in addition to any late charges and default rate interest under the Loan Agreement.

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**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

**\$15,775,000**

**CALIFORNIA SCHOOL FINANCE AUTHORITY  
SCHOOL FACILITY REVENUE BONDS  
(ALLIANCE FOR COLLEGE-READY PUBLIC SCHOOLS – 2023 UNION LLC  
PROJECT)**

**\$15,690,000**

**2013 Series A (Tax-Exempt)**

**\$85,000**

**2013 Series B (Taxable)**

THIS CONTINUING DISCLOSURE AGREEMENT dated as of October 1, 2013 (the “Disclosure Agreement”) is executed and delivered by 2023 Union LLC, a California limited liability company (the “Borrower”), the Trustee under the Indenture, The Bank of New York Mellon Trust Company, N.A., in its capacity as Dissemination Agent hereunder (the “Dissemination Agent”) and Alliance Gertz-Ressler/Richard Merkin 6-12 Complex, organized as a California non-profit public benefit corporation (the “School”), for the holders of the above-captioned bonds (the “Bonds”) under the Indenture of Trust, dated as of October 1, 2013 (the “Indenture”), between the California School Finance Authority (the “Issuer”) and the Trustee. The Borrower, the School and the Dissemination Agent covenant and agree as follows:

**Section 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the Borrower, the School and the Dissemination Agent for the benefit of the Holders and Beneficial Holders of the Bonds and in order to assist the Participating Underwriter in complying with, and constitutes the written undertaking of the Borrower and the School for the benefit of the Bondholders required by, Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 C.F.R. § 240.15c2-12) (the “Rule”).

Each of the Borrower and the School, as an “obligated person” within the meaning of the Rule, undertakes to provide the following information as provided in this Disclosure Agreement:

- (a) Annual Financial Information;
- (b) Quarterly Information; and
- (c) Operating Data.

**Section 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Financial Information” means the financial information or Operating Data with respect to the Borrower and the School, provided at least annually, of the type included in Appendices A and B to the Limited Offering Memorandum, which Annual Financial Information shall include Audited Financial Statements, if available.

“Audited Financial Statements” means the annual audited financial statements of the School, which may be included in its parent’s audit.

“Beneficial Holders” means any person who 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 or depositories.

“CUSIP Number” means, with respect to the Bonds, 13059TAE9, 13059TAF6, 13059TAG4, 13059TAH2 and 13059TAJ8.

“Dissemination Agent” means the Dissemination Agent named above, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Borrower and which has filed with the Trustee a written acceptance of such designation.

“Holders” means either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in its depository system.

“Lease” means the Lease Agreement, dated as of October 1, 2013, between the Borrower and the School to lease the Facility financed with the proceeds of the Bonds.

“Listed Events” means any of the events listed in Section 4(a) hereof.

“Limited Offering Memorandum” means the Limited Offering Memorandum dated October 9, 2013 with respect to the Bonds.

“Operating Data” means, to the extent not included in Annual Financial Information, the following information with respect to the Borrower, substantially in the form set forth in the Limited Offering Memorandum, including Appendix A thereto:

- (i) the information regarding completion of construction or rehabilitation of the Facility (until completion);
- (ii) status of the School’s obligations under the Lease (e.g., whether any are delinquent and to what extent);
- (iii) a copy (which may be sent electronically) of the School’s adopted annual budget for the present Fiscal Year and a copy of revisions, if any, to the School’s annual budget as approved by its governing board;
- (iv) if the School 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; and
- (v) a copy of the official School Fall Enrollment Report (which may be sent electronically) showing the School’s official November 1 enrollment.

“Participating Underwriter” means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Quarterly Information” means (a) unaudited quarterly financial statements of the School for each fiscal quarter (including year to date), prepared in accordance with generally accepted accounting principles or with notes discussing any variance therefrom; (b) a comparison of actual results versus budgeted results for the period; (c) enrollment statistics for each grade in the School as of the end of each fiscal quarter; (d) funding per student for such quarter (together with any funding reduction per student

from the prior quarter) and (e) the waiting list, if any, by grade level. In addition, the Quarterly Report shall contain a management discussion and analysis of the School describing the School's operations, account balances, and fundraising efforts for the prior quarter. Information provided by the School to Standard & Poor's, if any, shall be included in the next Quarterly Report.

"Repository" means the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system currently at <http://emma.msrb.org>.

### **Section 3. Provision of Annual Reports and Quarterly Reports.**

(a) While any Bonds are outstanding, the Borrower shall, or upon written direction shall cause the Dissemination Agent to, provide (i) the Annual Financial Information on or before December 15 of each year (the "Annual Report Date"), beginning on or before December 15, 2013 to the Repository in an electronic format as prescribed by the Repository; and (ii) the Quarterly Information, on or before the date which is 60 days after the end of each calendar quarter, beginning 60 days after the calendar quarter ending December 31, 2013 (each a "Quarterly Report Date"). If the Dissemination Agent is to provide the Annual Financial Information or the Quarterly Information, not later than 15 Business days prior to said date, the Borrower shall provide the Annual Financial Information or Quarterly Information, as applicable, to the Dissemination Agent. To the extent not included in the audited final statements of the School, the Annual Report shall also include (i) updates to the information in under the caption "FINANCIAL PERFORMANCE OF THE SCHOOL" set forth in APPENDIX A – "CERTAIN INFORMATION ABOUT THE BORROWER, THE SCHOOL AND ALLIANCE" to the Limited Offering Memorandum and (ii) a certificate substantially in the form attached hereto as EXHIBIT B that provides certain School data and demonstrates the School's compliance with certain operating covenants contained in the Lease.

The Borrower and the School shall include with each such submission of Annual Financial Information or Quarterly Information to the Dissemination Agent a written representation addressed to the Dissemination Agent, upon which the Dissemination Agent may conclusively rely, to the effect that the Annual Financial Information or Quarterly Information is the Annual Financial Information or Quarterly Information, as applicable, required to be provided by it pursuant to this Disclosure Agreement and that it complies with the applicable requirements of this Disclosure Agreement. In each case, the Annual Financial Information or Quarterly Information may be submitted as a single document or as a set of documents, and all or any part of such Annual Financial Information or Quarterly Information may be provided by specific cross reference to other documents previously provided to the Repository or filed with the Securities and Exchange Commission and, if such a document is a final Limited Offering Memorandum within the meaning of the Rule, available from the Municipal Securities Rulemaking Board, as provided in the definition of Annual Financial Information. Such information shall include the CUSIP Number for the Bonds or such other identifying information as may be prescribed by the Municipal Securities Rulemaking Board or any successor thereto.

(b) If not provided as part of the Annual Financial Information, the Borrower shall, or, upon furnishing such Audited Financial Statements to the Dissemination Agent shall cause the Dissemination Agent to, provide Audited Financial Statements when and if available while any Bonds are Outstanding to the Repository.

(c) If by 15 Business days prior to an Annual Report Date or a Quarterly Report Date the Dissemination Agent has not received a copy of the required information, the Dissemination Agent shall contact the Borrower to give notice that the Dissemination Agent has not received the Annual Financial Information and that such information must be provided to the Repository, by the applicable Report Date.

(d) The Dissemination Agent shall:

(i) Determine each year the appropriate format for filing the Annual Report with the Repository and the proper form for such filing; and

(ii) to the extent the Borrower has provided the Annual Financial Information to the Dissemination Agent and required such information be sent to the Repository, file a report with the Borrower certifying that the Annual Financial Information has been provided by the Dissemination Agent to the Repository, pursuant to this Disclosure Agreement, stating the date it was provided.

(e) If the Dissemination Agent does not receive the Annual Financial Information from the Borrower required by clause (a) of this Section by the applicable Annual Report Date, the Dissemination Agent shall, without further direction or instruction from the Borrower, provide to the Municipal Securities Rulemaking Board notice of any such failure to provide to the Dissemination Agent Annual Financial Information by the applicable Annual Report Date. For the purposes of determining whether information received from the Borrower is Annual Financial Information, the Dissemination Agent shall be entitled conclusively to rely on the written representation made by the Borrower pursuant to this Section.

**Section 4. Annual Investor Call.** The School and the Borrower will hold an annual investor call for the purpose of reviewing the previous year's financial results. Such investor call shall be preceded by at least 14 days' notice provided through the Repository, and shall be held within 30 days of approval by the governing board of School of the School's audited annual financial statements. The Borrower's failure to conduct the investor call contemplated hereby shall not constitute a failure hereunder, shall not give rise to a requirement to provide notice thereof to the MSRB and shall not provide a basis for any remedy or enforcement action hereunder.

#### **Section 5. Reporting of Significant Events**

(a) This Section shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

(1) Principal and interest payment delinquencies;

(2) Unscheduled draws on debt service reserves reflecting financial difficulties;

(3) Unscheduled draws on credit enhancements reflecting financial difficulties;

(4) Substitution of credit or liquidity providers, or their failure to perform;

(5) 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 Bonds, or other material events affecting the tax status of the Bonds;

(6) Modifications to rights of Bondholders, if material;

(7) Bond calls, if material, and tender offers;

- (8) Defeasances;
- (9) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (10) Rating changes;
- (11) Bankruptcy, insolvency, receivership, or similar event of the Borrower;
- (12) The consummation of a merger, consolidation, or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to such actions, other than pursuant to its terms, if material; and
- (13) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) For purposes of the event identified in subsection (a)(11), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for a Borrower in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Borrower, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of such Borrower.

(c) The Trustee shall, within three (3) Business Days of obtaining actual knowledge of the occurrence of any of the Listed Events (except events listed in clauses (a)(1), (7), or (8)), contact the Borrower and the Dissemination Agent, inform each person of the event, and request that the Borrower promptly notify the Dissemination Agent and the Trustee in writing whether or not to report the event pursuant to subsection (f). For the purpose of this Disclosure Agreement “actual knowledge” means actual knowledge at the corporate trust office of the Trustee by an officer of the Trustee with responsibility for matters related to the administration of the Indenture.

(d) If the Borrower obtains knowledge of the occurrence of a Listed Event, because of a notice from the Trustee pursuant to subsection (b) or otherwise, the Borrower shall, within three (3) Business Days of receiving such notice from the Trustee, notify the Trustee and the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f) (the Trustee has no obligation to determine the materiality thereof).

(e) If in response to a request under subsection (c), the Borrower determines that the Listed Event (except events listed in subsections (a)(1), (2), (3), (4), (7) (other than bond calls), (8), (10), (11), or (13)) is not material, the Borrower shall, within three (3) Business Days of receiving such request from the Trustee, so notify the Dissemination Agent and the Trustee in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Trustee has been instructed by the Borrower to report the occurrence of a Listed Event, the Trustee shall file in a timely manner, not in excess of ten Business Days after such occurrence (assuming it has received instructions not less than two Business Days prior to the expiration of such ten

Business Day period), a notice of such occurrence with the MSRB in an electronic format as prescribed by the MSRB (which, as of the date hereof, is EMMA). Notwithstanding the foregoing:

- (i) notice of the occurrence of a Listed Event described in subsections (a)(1), (2) or (13) shall be given by the Trustee unless the Borrower gives the Trustee written affirmative instructions not to disclose such occurrence; and
- (ii) notice of Listed Events described in subsections (a)(7) (other than tender offers) and (8) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the owners of affected Bonds pursuant to the Indenture.

**Section 6. Termination of Reporting Obligation.** The Borrower's, the School's, the Dissemination Agent's and the Trustee's obligations under this Disclosure Agreement shall automatically terminate once the Bonds are no longer outstanding or, with respect to the Trustee or the Dissemination Agent, as appropriate, upon the resignation or removal of the Trustee or the Dissemination Agent or with respect to the Borrower and the School, once they are no longer obligated on the Bonds.

**Section 7. Dissemination Agent.** The Borrower may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent upon notice to the Dissemination Agent. The Dissemination Agent may resign at any time by providing 30 days' written notice to the Borrower and the Trustee. The initial Dissemination Agent shall be the Dissemination Agent named herein.

**Section 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the Borrower, the School, the Dissemination Agent and the Trustee may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived by the parties hereto, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, acceptable to the Borrower and the Trustee, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule, provided that neither the Trustee nor the Dissemination Agent shall be obligated to agree to any amendment that modifies the duties or liabilities of the Dissemination Agent or the Trustee without their respective consent thereto. Any such amendment shall satisfy, unless otherwise permitted by the Rule.

**Section 9. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the Borrower or the School from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information or Quarterly Information or notice of occurrence of a material event, in addition to that which is required by this Disclosure Agreement. If the Borrower or the School chooses to include any information in any Annual Financial Information or Quarterly Information or notice of occurrence of a material event in addition to that which is specifically required by this Disclosure Agreement, the Borrower or the School, as the case may be, shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Financial Information or Quarterly Information.

**Section 10. Default.** In the event of a failure of the Borrower, the School, the Dissemination Agent or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee, at the written direction of the Participating Underwriter or the Holders of at least 25% in aggregate principal amount of Outstanding Bonds, shall, but only to the extent the Trustee receives indemnification to its satisfaction, or any Beneficial Holder or Holder of any of the Bonds may, seek mandate or specific

performance by court order, to cause the Borrower, the School, the Dissemination Agent or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement; provided that none of the Borrower, the School, the Dissemination Agent or the Trustee shall be liable for monetary damages or any other monetary penalty or payment for breach of any of its obligations under this Section or unless, in the case of the Borrower, such breach shall have been willful or reckless. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Loan Agreement or the Indenture, and the rights and remedies provided by the Lease upon the occurrence of an “Event of Default” shall not apply to any such failure. The sole remedy under this Disclosure Agreement in the event of any failure of the Borrower, the School, the Dissemination Agent or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

**Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.**

Article IX of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the benefits, protections and provisions thereof to the same extent as the Trustee. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Borrower agrees to indemnify and save the Dissemination Agent and the Trustee and their officers, directors, employees and agents harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys’ fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent’s or Trustee’s respective negligence or willful misconduct. The Dissemination Agent and Trustee shall be paid compensation by the Borrower for their services provided hereunder and all expenses, legal fees and advances made or incurred by the Dissemination Agent hereunder. The Dissemination Agent and Trustee shall have no duty or obligation to review any information provided to it by the Borrower hereunder and shall not be deemed to be acting in a fiduciary capacity for the Borrower, the Holders or Beneficial Holders of the Bonds or any other party. The obligations of the Borrower under this Section shall survive resignation or removal of the Dissemination Agent or Trustee and payment of the Bonds.

**Section 12. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the Borrower, the Trustee, the Dissemination Agent, the Participating Underwriter and the Beneficial Holders and Holders of any Bonds and shall create no rights in any other person or entity.

**Section 13. Interpretation.** It being the intention of the Borrower that there be full and complete compliance with the Rule, this Disclosure Agreement shall be construed in accordance with the written guidance and no action letters published from time to time by the Securities and Exchange Commission and its staff with respect to the Rule.

**Section 14. Governing Law.** This Disclosure Agreement shall be governed by the laws of the State of California.

**Section 15. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Remainder of Page Intentionally Left Blank]

[Borrower's Signature Page to Disclosure Agreement]

**2023 UNION LLC,**  
a California limited liability company

By: **Alliance for College-Ready Public Schools Facilities  
Corporation,**  
its Managing Member

By: \_\_\_\_\_  
Name: David Hyun  
Title: Chief Financial Officer

[Trustee and Dissemination Agent's Signature Page to Disclosure Agreement]

**THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as Dissemination Agent**

By: \_\_\_\_\_  
Authorized Officer

[The School's Signature Page to Disclosure Agreement]

**ALLIANCE GERTZ-RESSLER/  
RICHARD MERKIN 6-12 COMPLEX,**  
a California non-profit public benefit corporation

By: **Alliance for College-Ready Public Schools Facilities  
Corporation,**  
its Managing Member

By: \_\_\_\_\_  
Name: David Hyun  
Title: Chief Financial Officer

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: California School Finance Authority

Name of Bond Issue: \$15,775,000  
California School Finance Authority School Facility Revenue Bonds  
(Alliance for College-Ready Public Schools – 2023 Union LLC Project),  
2013 Series A and 2013 Series B

Name of Obligated Person: 2023 Union LLC

Date of Issuance: October 24, 2013

CUSIP No: \_\_\_\_\_

NOTICE IS HEREBY GIVEN that 2023 Union LLC (the “Borrower”) has not provided an Annual Report with respect to the above-named Bonds as required by the Loan Agreement, dated as of October 1, 2013, between the Issuer and the Borrower. The Borrower has informed the Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A.**, as Dissemination Agent

By: \_\_\_\_\_  
Authorized Representative

**EXHIBIT B**

**FORM OF CERTIFICATE FOR ANNUAL FILING OF CERTAIN OPERATING COVENANTS**

Name of Issuer: California School Finance Authority

Name of Bond Issue: \$15,775,000 California School Finance Authority  
School Facility Revenue Bonds  
(Alliance for College-Ready Public Schools – 2023 Union LLC Project)  
2013 Series A and 2013 Series B

Dissemination Agent: The Bank of New York Mellon Trust Company, N.A.

Name of Borrower: 2023 Union LLC

Date of Issuance: October 24, 2013

NOTICE IS HEREBY GIVEN that the School is providing to the Dissemination Agent the following operational information as required under Section 4(a) of the Continuing Disclosure Agreement, dated as of October 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 one hundred eighty (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 October 1, 2013 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The information contained below is unaudited.

1. As of June 30, 20\_\_, School’s:
  - (a) Cash on Hand was equal to \$\_\_\_\_\_.
  - (b) The amount of Cash on Hand required to comply with the covenant contained in Section 28 of the Lease Agreement for current fiscal year is equal to \_\_\_\_% of the School’s operating expenses on the date of calculation and the School [is/is not] in compliance with such covenant.
  - (c) The Schools’ Debt Service Coverage Ratio for fiscal year 20\_\_ was \_\_\_\_x.

## 2. Projected Enrollment

Grade	20	-20	20	-20	20	-20	20	-20	(School Years)
6 <sup>th</sup>									
7 <sup>th</sup>									
8 <sup>th</sup>									
9 <sup>th</sup>									
10 <sup>th</sup>									
11 <sup>th</sup>									
12 <sup>th</sup>									
Total									

## 3. Enrollment Waitlist as of November 1, 20\_\_

Grade
6 <sup>th</sup>
7 <sup>th</sup>
8 <sup>th</sup>
9 <sup>th</sup>
10 <sup>th</sup>
11 <sup>th</sup>
12 <sup>th</sup>
Total

This certificate is being provided by the School to the Dissemination Agent on a date which is [within][outside] of one hundred eighty (180) days from the end of the Schools' prior fiscal year.

Dated: \_\_\_\_\_

**ALLIANCE GERTZ-RESSLER/  
RICHARD MERKIN 6-12 COMPLEX,**  
a California non-profit public benefit corporation

**Corporation,**

By: **Alliance for College-Ready Public Schools Facilities**  
its Managing Member

By: \_\_\_\_\_  
Name: David Hyun  
Title: Chief Financial Officer

## APPENDIX E

### BOOK-ENTRY SYSTEM

*The information in this Appendix has been provided by DTC for use in securities offering documents, and neither the Authority nor the Borrower take no responsibility for the accuracy or completeness thereof. The Authority and the Borrower cannot and do not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owner either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Limited Offering Memorandum. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC. As used in this appendix, "Securities" means the Bonds, "Issuer" means the Authority and the Borrower.*

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.

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). and [www.dtc.org](http://www.dtc.org).

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.

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 Appendix 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.

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**APPENDIX F**

**FORM OF OPINION OF BOND COUNSEL**

[Delivery Date]

California School Finance Authority  
Los Angeles, California

California School Finance Authority  
School Facility Revenue Bonds  
(Alliance for College-Ready Public Schools – 2023 Union LLC Project)  
2013 Series A (Tax-Exempt)

and

California School Finance Authority  
School Facility Revenue Bonds  
(Alliance for College-Ready Public Schools – 2023 Union LLC Project)  
2013 Series B (Taxable)  

---

  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California School Finance Authority (the “Authority”) in connection with the issuance of \$15,690,000 aggregate principal amount of California School Finance Authority School Facility Revenue Bonds (Alliance for College-Ready Public Schools – 2023 Union LLC Project), 2013 Series A (Tax-Exempt) (the “Series A Bonds” \$85,000 aggregate principal amount of California School Finance Authority School Facility Revenue Bonds (Alliance for College-Ready Public Schools – 2023 Union LLC Project), 2013 Series B (Taxable) (the “Series B Bonds” and together with the Series A Bonds, the “Bonds”). The Bonds are issued under and pursuant to an indenture, dated as of October 1, 2013 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The Indenture provides that the Bonds are issued for the stated purpose of making a loan of the proceeds thereof to 2023 Union LLC, a California limited liability company (the “Borrower”), whose sole member is Alliance for College-Ready Public Schools Facilities Corporation, a California nonprofit public benefit corporation (the “Sole Member”) pursuant to a loan agreement, dated as of October 1, 2013 (the “Loan Agreement”), between the Authority and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Intercept Notices, the Lease, the Tax Certificate, opinions of counsel to the Authority, the Borrower, Alliance Gertz-Ressler/Richard Merkin 6-12 Complex, a California nonprofit public benefit corporation (“the School”), and the Trustee, certificates of the Authority, the Borrower, the School, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Musick Peeler & Garrett LLP, Los Angeles, California, counsel to the Borrower, the Sole Member and School, regarding, among other matters, the current qualification

of the Sole Member and the School as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”), and the status of the School as a charter school organized under the Charter School Law. We note that the opinion to the Borrower, the Sole Member and the School is subject to a number of qualifications and limitations. We have also relied upon representations of the Borrower, the Sole Member and the School regarding the use of the facilities financed or refinanced with the proceeds of the Series A Bonds in activities that are not considered unrelated trade or business activities of the Borrower, the Sole Member or the School, respectively, 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 Sole Member or the School 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 or refinanced facilities in activities that are considered unrelated trade or business activities of the Borrower, the Sole Member or the School within the meaning of Section 513 of the Code, may result in interest on the Series A Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court 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. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement, the Lease, the Intercept Notices 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 on the Bonds to be included in gross income for federal income tax purposes. In addition, we have assumed that actions of the Borrower and other persons will not cause any of the Bonds to exceed the \$150,000,000 limitation on qualified 501(c)(3) bonds that do not finance hospital facilities set forth in Section 145(b) of the Code. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement, the Lease, the Intercept Notices and the Tax Certificate, and their enforceability, may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against instrumentalities of the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability 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 as subject to the lien of the Indenture, the Loan Agreement, the Lease, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Limited Offering Memorandum, dated October 9, 2013, relating to the Bonds, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.
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 and interest on the Bonds, of the Payments (except Payments pursuant to the Intercept Notice) and any other amounts (excluding proceeds of the sale of the Bonds) held by the Trustee in any fund or account 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 Bonds are further secured by apportionments 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 paid directly to the Trustee.
3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority.
4. Interest on the Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Interest on the Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP